

# Lawton Asset Management, Inc.

## Part 2A of Form ADV

### The Brochure

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Santa Fe, New Mexico 87508

Updated: March 6, 2018

This brochure provides information about the qualifications and business practices of Lawton Asset Management, Inc. (“LAMI”). If you have any questions about the contents of this Brochure, please contact us at 847-920-0001. 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.

LAMI is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an adviser provides you with information about which you determine to hire or retain an adviser.

Additional information about LAMI is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

This Brochure was prepared in connection with the initial registration of LAMI and therefore, there are no material changes to report from a previous Brochure.

In the future, this section will discuss only specific material changes that are made to the Brochure and provide clients with a summary of

Updated on 7/29/2013 with amount of assets under management and change of address

Updated on 12/30/2013 with AUM's under management on a discretionary and non-discretionary basis.

Updaed on 3/15/2015 with AUM's under management on a discretionary and non-discretionary basis

**Updated: on 2/29/16 with AUM's under management on a discretionary a nd non-discretionary basis.**

Updated 3/6/2018:

AUM's under management on a discretionary basis.

Changes in the Trade Approval Process for Employee accounts.

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## **Advisory Business**

LAMI primarily provides customized investment management services to high-net-worth individuals and associated trusts, estates, pension and profit sharing plans, and other legal entities on both a discretionary and non-discretionary basis. LAMI generally invests client assets in domestic and international stocks, bonds, mutual funds, and exchange traded funds (“ETFs”).

LAMI works with each client to establish an appropriate investment profile. Clients choose from growth, balanced, and conservative strategies, and can impose reasonable restrictions on LAMI’s management of their accounts.

LAMI was founded in 2001 and is jointly owned by Gregory Lawton and Marie Lawton. As of December 31, 2017 LAMI managed \$111,171,159.. on a discretionary basis for 18 clients.

## **Fees and Compensation**

Clients may retain LAMI by entering into a written contract for investment managements services. Contracts are cancelable upon 30 days written notice by either party. In case of cancellation, fees are prorated through the date of cancellation and any excess payment is refunded to the client.

LAMI offers investment advisory services to clients with a fee structure that contains the following features:

1. Fees are based on the market value of assets under management or in some cases a flat fee.
2. Fees are charged quarterly in arrears and are due within 30 days of billing.
3. LAMI charges an annual fee of up to 1.5 percent of assets. Fees are negotiated based on: The type of assets being managed. The level of service an account requires. Stringent record-keeping and administrative requirements may require a higher fee than that charged to accounts without such requirements. Generally, aggressive growth accounts will be charged more than accounts seeking long-term appreciation. Accounts seeking portfolio monitoring without active management may negotiate lower fees
4. A statement of fees may be agreed upon and included in a written and signed contract at the time of account opening or before. From time to time fees may be changed either in writing or by oral agreement.
5. Fees are billed at the end of the first quarter after management begins and every quarter thereafter except in cases where LAMI and the client agree to fees being paid in arrears for periods of up to one year.
6. On Private Investment Fund Advisory recommendations, LAMI’s Investment Advisory Fees are billed in addition to Asset Based and Performance Fees incurred by the client in respect to these investments.

LAMI has waived or negotiated lower fees for certain clients, such as charitable organizations or employees' family members.

LAMI imposes a minimum annual fee of \$10,000, which may be waived or reduced.

LAMI generally charges fees quarterly in arrears based on the account value at the end of the prior quarter. Clients may authorize the custodian to deduct fees from their brokerage accounts or they may send a check after receiving their quarterly invoice.

If a client terminates the investment management agreement with LAMI in the middle of a billing period LAMI will invoice the client for an amount that is pro-rated based on the number of days that the account was managed.

Client deposits and withdrawals are prorated for billing purposes. If a client's deposit and/or withdrawal affect the investment advisory fee by \$25.00 or more, it will be added or subtracted from the quarterly fee.

In addition to LAMI's investment management fees, clients bear trading costs and custodial fees. To the extent that clients' accounts are invested in mutual funds, these funds pay a separate layer of management, trading, and administrative expenses.

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

LAMI does not charge any performance based fees. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to LAMI.

## **Types of Clients**

LAMI primarily provides customized investment management services to high-net-worth individuals and associated trusts, estates, pension and profit sharing plans, and other legal entities. LAMI's minimum account size is generally \$1,000,000, but this amount is negotiable.

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

Gregory Lawton conducts fundamental analysis on all securities recommended for client accounts. This analysis varies depending on the security in question. For stocks and bonds the analysis generally includes a review of:

- The issuer's management;

- The amount and volatility of past profits or losses;
- The issuer's assets and liabilities, as well as any material changes from historical norms;
- Prospects for the issuer's industry, as well as the issuer's competitive position within that industry; and
- Any other factors considered relevant.

For mutual funds and ETFs the analysis generally includes a review of:

- The fund's management team;
- The fund's historical risk and return characteristics;
- The fund's exposure to sectors and individual issuers;
- The fund's fee structure; and
- Any other factors considered relevant.

Gregory Lawton, Chief Investment Officer (CIO) generally meets weekly with the Chief Compliance Officer to discuss existing and prospective investments. Investments are evaluated independently, as well as in the context of clients' existing holdings and sector exposures.

LAMI primarily invests for relatively long time horizons, often for a year or more. However, market developments could cause LAMI to sell securities more quickly.

Depending on a client's investment objectives, LAMI might engage in short selling or option writing. The use of short selling and option writing poses additional risks that are discussed in detail with any clients who are considering the use of these investment vehicles.

All investing involves a risk of loss.

### ***General Investment Risk.***

The business of investing in securities is highly competitive and the identification of attractive investment opportunities is difficult and involves a high degree of uncertainty.

All investments in securities and other financial instruments involve substantial risk of volatility (potentially resulting in rapid declines in market prices and significant losses) arising from any number of factors that are beyond the control of LAMI, such as: changing market sentiment; changes in industry conditions, competition and technology; changes in inflation, exchange or interest rates; changing domestic or international economic or political conditions or events; changes in tax laws and governmental regulation; and changes in trade, fiscal, monetary or

exchange control programs or policies of governments or their agencies (including their central banks). Changes such as these, as well as innumerable other factors, are often unpredictable and unforeseeable, rendering it difficult or impossible to predict or foresee future market movements.

### ***Investment Selection***

The success of client positions depends in large part on LAMI's ability to accurately assess the fundamental value of those positions. An accurate assessment of fundamental value depends on a complex analysis of a number of financial and legal factors. No assurance can be given that LAMI will be in a position to assess the nature and magnitude of all material factors having a bearing on the value of client positions, or that LAMI will accurately assess the impact of all factors of which it is aware.

### ***Equity Risks***

LAMI expects to invest client assets in equity and equity derivative securities. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets. As a result, clients may suffer losses if LAMI selects equity securities of issuers whose performance diverges from LAMI's expectations or if the equity markets generally move in a single direction and LAMI has not anticipated such a general move.

### ***Debt Securities***

LAMI expects to invest a portion of client assets in debt securities. A debt security typically has a fixed payment schedule which obligates the issuer to pay interest to the lender and to return the lender's money over a certain time period. A company typically meets its payment obligations associated with its outstanding debt securities before it declares and pays any dividends to holders of its equity securities. While most debt securities are used as an investment to produce income to an investor as a result of the fixed payment schedule, debt securities also may increase or decrease in value. The market value of debt securities generally varies in response to changes in interest rates and the financial condition of each issuer. During periods of declining interest rates, the value of debt securities generally increases. Conversely, during periods of rising interest rates, the value of such securities generally declines. This increase or decrease in value will affect the value of client accounts. These increases or decreases are likely to be more significant for longer duration debt securities.

### ***Changing Market Conditions***

Certain changes in general market conditions — for example, markets in which new inputs or an influx of new market participants disrupt the historical relationship between econometric factors and equity price movements — could materially reduce the profit potential for LAMI's clients.

There can be no assurance that the methods described above will be successful or that clients will not suffer losses. Investing in securities involves risk of loss that clients should be prepared to bear.

## **Disciplinary Information**

LAMI and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

LAMI and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

LAMI has adopted a written code of ethics that is applicable to all employees. Among other things, the code requires LAMI and its employees to act in clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. LAMI's restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household. A copy of LAMI's code of ethics is available upon request.

LAMI's employees are generally permitted to trade alongside client accounts as long as they receive the average price that is applicable to clients and pay their share of any transaction costs. However, no employees are allowed to participate in partially filled orders until all clients' orders have been filled. The Chief Compliance Officer monitors employee trading, relative to client trading, to ensure that employees do not engage in improper transactions.

All proposed employee transactions involving securities require preclearance by the CCO. The Chief Compliance Officer does not grant preclearance where it would appear that an employee's trading could disadvantage LAMI's clients.

Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming more suitable for clients, but the Chief Compliance Officer might not allow the security to be purchased for client accounts in order to avoid even the appearance of



employees trading ahead of clients. In LAMI's experience, it is rare for an employee's personal trading to limit clients' investment opportunities, but such a situation may arise from time to time.

## **Brokerage Practices**

LAMI generally recommends that clients arrange for their assets to be held with Charles Schwab. LAMI has managed client assets held at Charles Schwab for many years and has found Charles Schwab to offer good services at competitive prices.

LAMI does not believe that clients whose accounts are held by Charles Schwab bear any additional costs in connection with LAMI's receipt of the products and services. Furthermore, Charles Schwab's provision of these products and services is not contingent upon LAMI formally committing any specific amount of business to Charles Schwab. However, LAMI would not receive these products and services if client accounts were not held in custody and traded by Charles Schwab. LAMI's receipt of these products and services creates a conflict of interest in connection with LAMI's recommendation of Charles Schwab. Also, some of the products and services listed above benefit clients whose accounts are held by other custodians, which could create a conflict of interest between the clients at Charles Schwab who are indirectly paying for the products and services, and the clients at other custodians who may benefit from the products and services.

### The Selection of Trading Counterparties

LAMI can typically trade accounts held at Charles Schwab using other broker/dealers. However, Charles Schwab charges clients trade-away fees that can increase the cost of trading. Trade-aways generally only happen when LAMI receives research from the broker that LAMI believes justifies the additional costs (higher commissions and trade away fees) involved

For clients who elect to have their accounts held by firms other than Charles Schwab, LAMI's approach is generally to trade stocks, mutual funds, and ETFs with the chosen custodian, and to trade bonds with the dealer that offers sufficient liquidity and the most favorable pricing.

Some clients' accounts are relatively small, in which case the custodian may not allow LAMI to trade through other firms. Other clients may specifically request that their accounts only be traded through a particular broker/dealer. LAMI trades these accounts through the firm chosen by the client, which limits LAMI's ability to seek best execution. Trading restrictions may result in materially higher trading costs and reduced returns.

### Best Execution Reviews

On at least an annual basis LAMI's Chief Compliance Officer evaluates the pricing and services offered by Charles Schwab and Fidelity with those offered by other reputable firms. LAMI has made a good-faith determination that Charles Schwab and Fidelity provide clients with good services at competitive prices. However, clients should be aware that this determination could have been influenced by LAMI's receipt of products and services from Charles Schwab. Historically LAMI has concluded that Charles Schwab offers services and prices that are competitive. LAMI would notify its clients if it were to determine that another firm offered better pricing and services than Charles Schwab.

LAMI will from time to time utilize broker/dealers outside of the custodian for trading. Currently two outside broker/dealers are being utilized: Davenport & Company, LLC and Hutchinson Shockey & Erley & Company. Although LAMI has not traded through Hutchinson Shockey & Erley & Co during 2017, LAMI reserves the right to use them in the future. Both firms generally offer research and are competitively priced. Davenport charges six cents per share with a minimum ticket charge of \$25.00. It should be noted that LAMI trades through Davenport are limited to where advice and research is received and perceived of value. This relationship with Davenport constitutes a “soft dollar arrangement”. Additionally it should be noted that all client accounts benefit from this arrangement not just those related to the trading activity through Davenport. Clients should also be aware that a broker employed at Davenport is related to LAMI’s CIO. Greg Lawton generally trades through John Price at Davenport who is not related to him.

#### Aggregated Trades

LAMI typically aggregates client trades in an effort to treat all clients fairly. Clients participating in a bunched order receive the same average price and incur trading costs that are the same as would be paid if they were trading individually. Employees may be included side-by-side in bunched trades. If an order is partially filled, clients will have their order filled on a pro-rata basis when appropriate. Unfilled orders may or may not be filled in the following days depending on market conditions, prices of the security and the judgment of the portfolio manager.

LAMI aggregates client transactions for accounts at Schwab but not for accounts held at Fidelity. Clients who do not hold their securities at Schwab do not get aggregated trades. Accordingly, clients are hereby advised that they may receive different prices for the same securities transactions when traded through other broker/dealers. Additionally, clients may not be able to buy and sell the same quantities of securities and may be charged higher commissions or fees than clients whose trades are aggregated at Schwab.

#### **Sub-Advisers/Third Party Advisers Initial Due Diligence**

LAMI will utilize the services of sub-advisers/third party advisers for account/portfolio management services. Prior to utilizing any sub-adviser/third party adviser, LAMI will conduct a due diligence review of the sub-adviser/third party adviser. Due diligence may consist of the following: reviewing Form ADV or other disclosure documents, reviewing the sub-adviser’s/third party adviser’s qualifications, expertise, and strategies, conducting in person or telephonic interviews with the sub-adviser/third party adviser and confirming the registration status of the sub-adviser/third party adviser. Once all information has been collected LAMI will review the materials, and determine if LAMI will utilize, refer and/or recommend the sub-advisor/third-party adviser to clients.

## **Review of Accounts**

Prior to opening a new account, the CIO has detailed discussions with prospective clients about their investment objectives and risk tolerance. This discussion includes a detailed history of the prospective client's investment experience as well as a review of their balance sheet. The CIO helps the client to articulate how they would like their accounts managed by reviewing the available options offered by LAMI which range from broadly diversified actively managed portfolios to single asset class concentrations. The vast majority of LAMI accounts are multi

Financial), Master Limited Partnerships, Currency and Cash. Clients may opt not to utilize certain asset classes and may favor specific investment approaches (i.e. passive versus active management).

Based on these discussions the CIO will generally propose an allocation and a range for each asset class the client wishes to utilize. Upon reaching an agreement the CIO begins to invest the money to reach the overall allocation level discussed with the client. This can be done all at once or over another time frame as agreed upon by the client.

## **Existing Accounts**

Each client's portfolio is uniquely designed to meet their specific investment objectives. An overall allocation is developed for each client. Depending on market conditions the allocation may vary and clients are notified over the phone, through email and in in person meeting when any significant changes in the portfolio take place. These conversations/notifications are normally done prior to making allocation changes that are significant.

Each month, and more often if necessary the CIO reviews each client's portfolio for potential changes in allocation to asset classes as well as the individual holdings in each portfolio.

Each client is communicated with at least quarterly via email and telephone and the client has the option to meet with the CIO in person quarterly to review their portfolio.

## **Client Referrals and Other Compensation**

LAMI does not pay for client referrals. Other than the previously described products and services that LAMI receives from Custodians, LAMI does not receive any economic benefits from non-clients in connection with the provision of investment advice to clients.

## **CUSTODY**

All clients' accounts are held in custody unaffiliated broker/dealers or banks. Advisory fees may only be debited from these accounts by written authorization from the client. Account Custodians send statements directly to the account owners on a least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by LAMI.

## **Investment Discretion**

LAMI has investment discretion over most client's accounts. Clients grant LAMI trading discretion through the execution of a limited power of attorney included in LAMI's Contract. Clients can place reasonable restrictions on LAMI's investment discretion. For example, some clients have asked LAMI not to buy securities issued by companies in certain industries, or not to sell certain securities where the client has a particularly low tax basis. In addition client's may decide to purchase private investment or securities which LAMI has researched and discussed with the client but does not have discretion for the initial purchase, additional purchases or the sale of the private investment. Clients may opt to have or own some securities which are considered "unmanaged assets" and held/reported on by LAMI under an account section titled "Unmanaged Assets".

### **Voting Client Securities**

LAMI **will not vote** proxies for securities held in the Accounts. The client will inform its Custodian(s) that LAMI should not be designated as the party to receive information on voting proxies. The obligation to vote the Client's proxies will rest with the Client. If LAMI inadvertently receives proxy information for a security held in the Accounts, then LAMI will promptly forward the information to the Client, but will not take any further action with respect to the proxy.

### **Financial Information**

LAMI has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage clients' accounts.