

Wealth Design Services Inc  
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[www.wealthdesignservices.com](http://www.wealthdesignservices.com)  
January 1, 2012

This Brochure provides information about the qualifications and business practices of Wealth Design Services, Inc. If you have any questions about the contents of this Brochure, please contact us at 585-442-3230 or at [sschwartz@wealthdesignservices.com](mailto:sschwartz@wealthdesignservices.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.

Wealth Design Services, Inc 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 provide you with information about which you determine to hire or retain an Adviser.

Additional information about Wealth Design Services, Inc is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 – MATERIAL CHANGES

The purpose of this Item is to call your attention to material changes contained in this Form ADV when compared to Form ADV for the Year Ended December 31, 2010.

Pursuant to SEC Rules, you will receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

The policy of Wealth Design Services is to provide clients with a complete Form ADV within 120 days of the close of our business fiscal year without charge. It can be also be requested at any time.

Currently, our Brochure may be requested by contacting Wealth Design Services, Inc at 585-442-3230 or [sschwartz@wealthdesignservices.com](mailto:sschwartz@wealthdesignservices.com).

Additional information about [Wealth Design Services, Inc](#) is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with [Wealth Design Services, Inc](#) who are registered, or are required to be registered, as investment adviser representatives of [Wealth Design Services, Inc](#).

### **Material Changes Contained in this Form ADV.**

Item 4 of Form ADV discloses the assets under management on December 31st of each year. In 2011, Wealth Design Services offered to add to its reports selective assets held outside our Custodian relationship for client convenience and to facilitate providing advice about those holdings. These assets are typically 401k or 403b employee retirement accounts. Disclosure of these assets is now included in Form ADV in the disclosure of Non Discretionary Assets.

Item 4 of Form ADV describes our services as "retirement income management" services. We identify the total process used to track and organize this comprehensive service offering as our "Pension Up Process" <sup>(sm)</sup>.

Item 8 of Form ADV previously described two tiers of service provided by Asset Dedication LLP of Mill Valley, California to Wealth Design Services Inc or its clients.

The first tier of service – fixed income management – has not changed. Asset Dedication LLC continues to be a major vendor of Wealth Design Services Inc in its role as a fixed income manager.

The second tier of services was intended to provide outsourced trading assistance using Tamarac software and the benefit of offsite retention of portfolio related documents. This tier of service was not implemented and the corresponding functions have been internalized by Wealth Design Services Inc. The planned functionality of the Tamarac software is provided through TRX Total Rebalance Systems which is administered at our office in Rochester, NY. No further plans exist to outsource these services. Backups of all records are maintained offsite, but at a location in Rochester, NY.



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## ITEM 4 – ADVISORY BUSINESS

Wealth Design Services Inc. provides comprehensive tax, financial planning and investment services to individuals and families. Our service emphasis is directed toward individuals who are within 5 years of retirement, who are in retirement or who are otherwise depending on savings and investments to support their current living expenses.

The Firm was established in 2004 by Steven Schwartz, CPA, JD, PFS, RMA following a lengthy career as a Tax Partner in two regional accounting firms in Rochester, NY. Steven Schwartz is the sole shareholder of Wealth Design Services Inc. , an independent registered investment advisor.

All services are provided through a “fee only” arrangement that precludes Wealth Design Services Inc from earning income from commissions, referral fees or any other forms of compensation in connection with advice provided to clients. Wealth Design Services Inc acts in a fiduciary relationship with its clients.

Wealth Design Services Inc believes that its resources and methodologies are particularly suited for individuals approaching retirement or who are in retirement. The distinguishing characteristic of these services is the emphasis placed on financial planning prior to formulating specific investment recommendations as well our selection of financial solutions which complement retirement planning.

In order to address the needs of retirement, we apply our knowledge of a variety of investment vehicles to each client situation. Our fee only model permits us to reach beyond the capabilities of any single product solution and to deliver a planning process that evolves over time.

Our signature service is best described as “retirement income management”. We describe the service in our literature, and internally, as our “Pension Up Process”. <sup>(sm)</sup> We believe that this approach differs from traditional accumulation investing in the following ways:

1. Financial planning is used to develop an appropriate investment strategy rather than orienting investments to track published investment benchmarks.
2. Whereas accumulation investing has a long term orientation that is often designed around statistical expectations, “retirement income management” builds portfolio recommendations around issues of risk, cash flow and essential outcomes alongside the issues of portfolio growth and legacy.

3. Rather than relying on traditional “risk tolerance” questionnaires to determine portfolio composition, risk is managed by employing the so called “investment pool” approach.

That is, different pools of assets are established to reflect different risks and objectives.

The two most common pools are an “income pool” and a “growth pool”.

The “income pool” is dedicated to each client’s cash flow needs over a period of time that is mutually agreed upon. This pool is likely to contain a combination of cash, laddered bonds and possibly annuity contracts.

The “growth pool” is dedicated to longer term objectives and is invested for growth with the purpose of sustaining portfolio purchasing power over time and to meet legacy goals.

### **Assets Under Management**

As of December 31, 2011, Wealth Design Services Inc manages or supervises \$81,648,924 of client assets. Of this amount \$59,347,728 of client assets are managed on a discretionary basis. In addition, Wealth Design Services Inc supervises \$22,301,196. of client assets on a nondiscretionary basis, including \$9,262,944 of assets held by clients within their employee retirement plans or other outside accounts.

## ITEM 5 – FEES AND COMPENSATION

Wealth Design Services Inc is a fee only advisory firm. This means that our only source of revenue is from client fees.

Our comprehensive management services, which are described as our “Pension Up Process<sup>(sm)</sup>” are intended to offer a broad engagement that includes financial planning assistance, investment management, tax planning and compliance and estate planning. These services tend to be delivered in segments over the life of the relationship rather than in the form of a single comprehensive plan. We consider financial planning to be a process rather than a specific document description.

Our fees are derived from the following fee schedule:

|                           |      |
|---------------------------|------|
| First \$1,000,000         | 1%   |
| \$1,000,001 - \$2,000,000 | .75% |
| \$2,000,001 - \$3,000,000 | .65% |
| \$3,000,001- \$5,000,000  | .6%  |
| Over \$5,000,000          | .5%  |

Fees are negotiable and payable quarterly in arrears.

Wealth Design Services Inc offers its clients the opportunity to choose either a traditional asset based fee that is revalued quarterly or a fixed fee that accrues quarterly or is reset based on mutual agreement.

The minimum fee for the comprehensive services provided by Wealth Design Services Inc is \$1,250 per quarter for “mutual fund only accounts” (\$5,000 per year), except that fees may be waived for employees of Wealth Design Services Inc and members of their families and employees of family members. When an account holds individual securities, such as individual bonds, the minimum fee is \$1,875 per quarter (\$7,500 per year).

The services of Wealth Design Services Inc may be terminated at any time by the client. During the first year only, a minimum fee commitment is required to compensate Wealth Design Services Inc for the financial planning process that precedes investment selection.

Our comprehensive fee includes preparation of client tax returns when the expected annual fee is \$7,500 or more. Otherwise, tax return services are billed separately based on a quoted rate.

#### Other Costs That Each Client Should Anticipate and Understand

In addition to the fees charged by Wealth Design Services Inc for its services, all clients will incur additional fees and expenses, depending on the product or services chosen to implement a particular investment strategy or financial plan.

Clients whose assets will be invested in a mutual fund will incur expenses inside the fund that are fully described in the fund prospectus that will be sent to you by Charles Schwab.

Due to the nature of our retirement focused practice, Wealth Design Services Inc is likely to recommend a third party manager who is responsible for bond selection and management. That manager will charge an asset based fee in addition to the fees charged by Wealth Design Services Inc.

Clients may also incur charges imposed by unaffiliated insurance companies and their agents custodians, brokers, third party investment managers and other costs such as fees for odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

All such costs are exclusive of and in addition to Wealth Design Services, Inc's fee. Wealth Design Services, Inc does not receive any portion of these commissions, fees or costs.

#### Factors Considered in Selection or Recommending Third Parties for Client Transactions

Wealth Design Services Inc relies on many third party vendors to provide valuable services to both the client and to Wealth Design Services Inc. As described above, these services may result in additional routine costs which are borne by the client.

We receive no monetary compensation from any third party vendor solution that we choose to use or recommend.

Factors that are considered in making recommendations to clients include:

1. The integrity and consistency of the vendor's service delivery
2. Whether the vendor's service offerings are consistent with the service offerings of Wealth Design Services Inc



3. The level of transparency offered to both Wealth Design Services Inc and the client in service delivery, and
4. Whether the cost of the service, when considered in connection with all costs likely to be incurred by the client, are reasonable and of good value to both the client and to Wealth Design Services Inc in serving the client.

### Custody

Wealth Design Services Inc will not and does not take custody of client assets. Clients will be asked to custody asset at either Charles Schwab and Company or at SEI Trust Company to facilitate Wealth Design Services Inc's ability to provide services to the client in an efficient and high quality manner.

Charles Schwab and Company charges no fee for holding client assets. However, transaction charges are assessed each time a security is bought or sold.

SEI Trust Company charges no fee for holding client assets. However, SEI charges fees to each client based on the investment strategy employed. These fees compensate both SEI and any underlying 3rd party managers.

### Planning Only Engagements

From time to time, Wealth Design Services Inc will accept "planning only engagements" which are limited to financial planning analysis and recommendations. The fees for this type of engagement range in cost from \$2,500 to \$5,000 depending on the scope of the client's needs. A retainer will be requested at the start of the engagement. Whether or not these engagements are accepted depends on resource availability as well as our assessment of the value of such an engagement to the client.

### Fee Collection

The specific manner in which fees are charged by Wealth Design Services Inc, Inc is established in a client's written agreement with Wealth Design Services, Inc. The agreement will authorize Wealth Design Services, Inc to directly debit fees from client accounts. Management fees are not prorated for capital contributions or withdrawals made during the applicable calendar quarter, but are calculated using account value on the final valuation, including accrued interest on bonds at quarter end. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee.

## ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Wealth Design Services, Inc does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## ITEM 7 – TYPES OF CLIENTS

Wealth Design Services Inc. provides comprehensive tax, financial planning, and investment services to individuals with an emphasis on individuals who are within 5 years of retirement, are in retirement or who are otherwise depending on asset accumulations for their current living costs.

We do not provide services to business sponsored retirement plans or not for profit endowment funds or trust funds that are not associated with an individuals or families unrelated to our comprehensive planning and management services.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

*Investing in securities involves risk of loss that clients should be prepared to bear. Furthermore, individuals who are nearing retirement or who are in retirement have added risks to consider when managing their investment accounts.*

The risks that we consider in formulating our advice to clients include:

**Personal Risks:** These are risks personal to each individual which are largely unpredictable, but are expected to be burdensome from a financial point of view. These include the risk of acute health care, the risk of running out of money due to longevity, and “sequence of return” risk. The hazard caused by “sequence of return risk” is the random coincidence that the market value of a client’s portfolio has dropped in value at the same time that the client is expending the investment resources. The implication of this risk is that at times when market values are low, more investment units must be sold to raise the desired amount of cash. This has the long term effect of eroding the growth potential of a portfolio. Each client’s ability to withstand these risks is ultimately tied to the level of their financial resources. No assumption can be made that financial advice will overcome these risks.

**Investment risks:** Investment risks are often described as *systematic or unsystematic*.

*Unsystematic risks* are those unique to a single company, industry or geographical location. Credit risk is a form of unsystematic risk. Unsystematic risks are managed through investment diversification and asset allocation.

*Systematic risks* are those risks that apply to the financial system as a whole and cannot be controlled through diversification or asset allocation as was evident in the 2008-2009 market collapse.

**Public Policy Risks:** Public policy risks also affect financial outcomes. These risks refer to the risk of tax rate increases, monetary inflation, interest rate changes and political events.

### **Risk Management**

Risk is impossible to avoid and the possibility of loss is an inherent aspect of investing. It is not realistic to believe that all risks can be mitigated. However, we are deliberate in our efforts to control risks through our investment choices and processes.

#### *Management of Personal Risks*

The value of personal financial planning is not its predictive ability. The value derives from the opportunity that it creates to be strategic and thoughtful over a period of time. Like the investment markets, which change every day, each individual is unique and can expect to experience changes throughout their life.

#### *Risk Management by Prioritizing Investment Goals*

Your standard of living is the starting point for our investment process. The reason is simple. The most important function of your investment portfolio is to fund your standard of living. It determines the amount that you must annually withdraw from your investments. This is called your withdrawal rate.

Understanding the relationship between your annual withdrawal rate and your resources is critical in understanding your financial capacity.

Too high a withdrawal rate might mean that your retirement is underfunded. In this situation, our ability to assist you, if at all, will be limited. A useful rule of thumb is that if your annual withdrawal rate is expected to exceed 7.5% of your investment assets, we would consider your retirement to be underfunded. Our client acceptance policy requires an expected withdrawal rate of less 7.5% of invested assets.

Another way that we use this information is to help us gauge the level of your resources that must be committed to investments that are dedicated to funding your anticipated “living needs” and those resources that are best dedicated to “portfolio growth”. Resources committed to “funding living needs” will not provide growth. They provide cash when you need it.

#### *Risk Management Through Investment Choice*

While our portfolios are designed to include many different asset classes, we find it more helpful to think of our portfolios in terms of an income sleeve and a growth sleeve.

### Income Sleeve

Rather than building the income sleeve of your portfolio using the standard methodology of risk tolerance questionnaires and statistical averages, the income sleeve is unique to each investor. This is possible by integrating the “cash plan” that we help each client develop with a matching portfolio of high quality laddered bonds, notes, or CDs specifically selected and sized to meet the client’s annual “funding” needs.

Fixed income investors are subject to investment risks that are often overlooked without experience in bond ownership. These risks include default risk (the risk of not being repaid or credit downgrade), interest rate risk (the risk that interest rate increases cause a decrease in your bond value), inflation risk (the risk that inflation causes a loss of purchasing power during the instrument holding period), and reinvestment risk (the risk that maturing bonds must be reinvested in replacement instruments with less favorable terms).

Our investment discipline responds to these risk factors, but does not eliminate them in the following ways:

1. Our laddered bonds are designed to be held to maturity. During the holding period of all bonds, interest rate increases are expected to cause a decline in bond values. However, we purchase bonds with the expectation that they will be repaid at redemption value at a measured maturity date – irrespective of the level of market interest rates. This practice is designed to mitigate interest rate risk and reinvestment risk.
2. To mitigate the effect of inflation, we employ United States Government Inflation Protected Government Securities and other inflation sensitive asset classes, to the extent available and appropriate. We may take inflation into account in sizing the cash flow that is incorporated into each “cash plan”.
3. Our emphasis on cash flow and planned liquidity may reduce the performance of the portfolio when measured against traditional benchmarks of total return. For example, this strategy may lead to higher cash reserves for longer periods of time than would be necessary in a traditional total return portfolio using systematic withdrawal systems to fund living expenses.
4. Credit risk is managed by limiting fixed income selection to government issued securities and highly rated corporate bonds where sufficient diversification is possible.

## Growth Sleeve

All portfolios share a growth objective to some degree.

The goal of the growth portion of each portfolio is to create additional funding for future income needs as well as create opportunities for legacy. Ultimately, the success of any portfolio will depend on the health of the investment markets. While there is no guarantee that the growth portion of the portfolio will succeed in fully replenishing the portion of the portfolio consumed during the bond ladder duration, the “asset pool” approach to retirement investment creates an important opportunity to protect income portfolios from “sequence of return risk”..

Wealth Design Services Inc offers a choice of active and passive investment strategies.

Active management strategies are available through SEI Trust Company.

Passive strategies are implemented primarily through the use of mutual funds engineered and offered by Dimensional Fund Advisors (DFA Funds).

Due to cost advantages and additional capability to customize client portfolios, we encourage the use of passive strategies where possible.

Our growth portfolio construction is heavily influenced by research of Professors Eugene Fama and Kenneth French which resulted in the so called “three factor model” of investing. This model attributes as much as 96% of possible equity returns to three factors: (1) the exposure to and behavior of the broader investment markets; (2) the portfolio’s exposure to the small company factor and (3) the portfolio’s exposure to the “value factor”. Neither the “small company factor” nor the “value factor” provide a consistent performance advantage each year (and sometimes these premiums are absent for several years), but they have been shown to present return premiums on a consistent basis over long periods of time. In order to implement these ideas in a transparent, consistent and low cost manner, our core growth portfolios employ DFA Funds. We are also free to use other growth solutions where we believe it is appropriate.

## Our Major Vendors

Wealth Design Services Inc relies on many independent vendors to deliver client services. Many of these vendors necessarily have access to private client information for the sole purpose of providing essential services to Wealth Design Services Inc and our clients. Wealth Design Services Inc receives no compensation for vendor selection, although vendors may recognize their relationship with Wealth Design Services Inc by offering preferred pricing or discounts on services based on Wealth Design Services Inc volume or

perceived profitability of our relationship. The convenience of having a limited number of trusted vendors and cost concessions and productivity tools and education opportunities offered to Wealth Design Services Inc could be a conflict of interest in our vendor choices.

### Custody

Our primary custodian is Charles Schwab and Company.

Our secondary custodian is SEI Trust Company.

### Asset Dedication LLC

Asset Dedication LLC of Mill Valley, California provides significant consulting services to both Wealth Design Services Inc and to its clients. Wealth Design Services Inc has no direct or indirect relationship to Asset Dedication.

Asset Dedication LLC provides engineered fixed income portfolios to meet the needs of individuals who depend on invested assets for living costs. We choose Asset Dedication LLC to manage our fixed income portfolios because of their unique ability to personalize bond portfolios for individuals, their competitive fees, our shared values toward client services and investment selection, and their commitment to improving the management of investment risk affecting retirees.

Asset Dedication LLC is compensated by a management fee which is debited from the client account, pursuant to an agreement between the client and Asset Dedication LLC. The annual fee for this service is currently .35% is limited to the specific assets managed by Asset Dedication

## **ITEM 9 – DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Wealth Design Services, Inc or the integrity of Wealth Design Services, Inc's management. Wealth Design Services, Inc has no information applicable to this Item.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Wealth Design Services Inc provides, on a restricted basis, tax preparation services for clients.

## ITEM 11 – CODE OF ETHICS

Wealth Design Services, Inc has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. This standard of business conduct requires that the interests of clients be placed ahead of the interests of the Firm or any of its employees at all times. The Code of Ethics incorporates policies and procedures relating to personal trading by employees and provides for sanctions if such policies and procedures are violated.

Wealth Design Services, Inc's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Steven Schwartz.

Persons related to or affiliated with Wealth Design Services Inc may own de minimus shares of publically held securities or mutual funds also owned by clients.

Investment recommendations follow the personal financial goals that are unique to each client. For this reason, differences will exist in the recommendations made among Firm clients.

## ITEM 12 – BROKERAGE PRACTICES

Wealth Design Services Inc may require that clients establish brokerage and custody accounts with Charles Schwab & Company, (Schwab) a registered broker-dealer, member SIPC, or SEI Trust Company (SEI) to maintain custody of client assets, provide reports and to implement trading instructions.

Both Schwab and SEI provide both Wealth Design Services Inc and clients with access to a variety of services. The services include brokerage, custody, research and access to mutual funds and other investments.

The services provided by Schwab are available to independent investment advisors on an unsolicited basis, at no cost, so long as a total of at least \$10 million of the advisor's client assets are maintained in accounts at Schwab.

These services are not otherwise contingent upon Wealth Design Services Inc committing to Schwab or SEI any specific amount of business (assets in custody or trading).

Both Schwab and SEI Trust Company make available to Wealth Design Services Inc other products and services that benefit Wealth Design Services Inc, but may not benefit client

accounts. Some of these other products and services assist in managing and administering client accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of fees from client accounts and assist with back-office functions, recordkeeping and client reporting.

Schwab and SEI also make available to Wealth Design Services Inc other services intended to help manage and further our business enterprise. These services may include consulting, publications, and conferences on practice management, information technology, business succession, regulatory compliance and marketing. While Wealth Design Services Inc endeavors to act in the best interest of the clients, the requirement that client's maintain their assets at Schwab or SEI may be based in part on the benefit to Wealth Design Services Inc from the availability of some of the foregoing products and services provided by Schwab or SEI. The extensive use of these resources by Wealth Design Services Inc poses a potential conflict of interest even though no fees or compensation are received from either Schwab or SEI.

#### **ITEM 13 – REVIEW OF ACCOUNTS**

Investment accounts are reviewed at least annually by Steven Schwartz to determine whether the investment accounts are performing in a manner that is consistent with the objectives established within the client's Investment Policy Statement and financial planning goals.

Additionally, reviews are triggered by events that occur during the year such as scheduled client meetings, unusually volatile market conditions, and significant cash inflows and outflows.

Wealth Design Services Inc prepares performance reports for each client four times a year and accounts are reviewed at that time as well.

#### **ITEM 14 – *CLIENT* REFERRALS AND OTHER COMPENSATION**

In limited circumstances, and only with the client's written consent and full knowledge, Wealth Design Services Inc has paid compensation to other advisors who refer clients to Wealth Design Services Inc.



## ITEM 15 – CUSTODY

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Wealth Design Services, Inc urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## ITEM 16 – INVESTMENT DISCRETION

Wealth Design Services, Inc usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Wealth Design Services, Inc observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Wealth Design Services, Inc's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Wealth Design Services, Inc in writing.

## ITEM 17 – VOTING *CLIENT* SECURITIES

As a matter of firm policy and practice, Wealth Design Services, Inc does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Wealth Design Services, Inc may provide advice to clients regarding the clients' voting of proxies.

## ITEM 18 – FINANCIAL INFORMATION

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Wealth Design Services, Inc's financial condition. Wealth Design Services, Inc has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

