

**Firm Brochure**  
(Part 2A of Form ADV)



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This brochure provides information about the qualifications and business practices of Carpenter Associates. If you have any questions about the contents of this brochure, please contact us at: 978-577-6025, or by email at: [dc@carpenterassociates.com](mailto:dc@carpenterassociates.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 Carpenter Associates is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

March 27, 2011

Carpenter Associates

## **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: 978-577-6025 or by email at: [dc@carpenterassociates.com](mailto:dc@carpenterassociates.com).

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# Advisory Business

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## Firm Description

Carpenter Associates was founded in 1997 by David Carpenter. There are currently two employees, neither of which provides investment advice to clients. The firm is federally registered with the Securities and Exchange Commission (SEC) as a Registered Investment Adviser.

Carpenter Associates provides personal financial planning and investment management to individuals, families, and their related pension and profit sharing plans, trusts, estates, small businesses and charitable organizations. Advice is provided through consultation with the client and may include: determination of financial objectives, cash flow analysis, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

Usually a client engagement begins with an evaluation of the client's initial situation, often taking the form of a financial plan.

Carpenter Associates compensation is solely from the fees paid directly by clients. The firm does not receive any commissions based on a client's purchase of a financial product. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products and is strictly fee-only. 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.

Assets under the investment management of Carpenter Associates are held at qualified third party custodians. Client's open accounts at these qualified custodian's such as TD Ameritrade, and grant Carpenter Associates limited power of attorney to place trades on their behalf, receive copies of statements and to deduct the quarterly fee from their account.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

The initial meeting is free of charge and is considered an exploratory interview to determine the extent to which Carpenter Associates financial planning and investment management services may be beneficial to the client.

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## Principal Owners

David A. Carpenter is a 100% stockholder.

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**Types of Advisory Services**

Carpenter Associates provides investment supervisory services, also known as Retained Services or Investment Management; manages investment advisory accounts, and sometimes furnishes investment advice through consultations.

On more than an occasional basis, Carpenter Associates furnishes advice to clients on matters not involving securities, such as financial planning matters and taxation issues.

As of December 31, 2011, Carpenter Associates manages approximately \$96,108,618 in assets for approximately 106 clients. Approximately \$95,683,629 is managed on a discretionary basis, and \$424,989 is managed on a non-discretionary basis.

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**Tailored Relationships**

The goals and objectives for each client are explored and identified through a consultative process. Investment policy statements are created that reflect the clients stated goals and objectives. 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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**Types of Agreements**

The following agreements define the typical client relationships.

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**Financial Planning Agreement**

A financial plan is designed to help the client with all aspects of financial planning without ongoing investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations are often provided as part of a financial plan. Implementation of the recommendations are at the discretion of the client.

The fee for a financial plan is predicated upon the facts known at the start of the engagement. The fee range is \$1,200 to \$2,500 and is dependent on the time required to address the client's issues. Since financial planning is a discovery process, situations occur wherein the client is unaware of certain financial exposures or predicaments.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must

approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

After delivery of a financial plan, future face-to-face meetings may be scheduled as necessary for up to one month. Follow-on implementation work is billed separately at the rate of \$175 per hour.

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### **Retained Services Agreement**

Most financial planning clients choose to have Carpenter Associates manage their investment assets in order to obtain ongoing investment advice. The financial plan created in the first step of the process above, is updated throughout the relationship as things change and time passes. Client's financial affairs are reviewed, balances are updated and expenses and income items are updated as part of this ongoing work. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for a Retained Services Agreement is provided to the client in writing prior to the start of the relationship. A Retained Services Agreement generally includes some or all of the following: cash flow analysis; insurance review; investment management (including performance reporting); education planning; retirement planning; estate planning; and tax preparation.

The maximum annual Retained Services Agreement fee is based on a percentage of the investable assets according to the following schedule:

- 1.00% on the first \$750,000;
- 0.60% on the next \$750,000; and
- 0.40% on the assets above \$1,500,000.

The minimum annual fee is \$5,000 and is negotiable. Current client relationships may exist where the fees differ from the fee schedule above. Most clients have a fixed Retained Services fee, billed quarterly in arrears.

Although the Retained Services Agreement is an ongoing agreement the length of service to the client is at the client's discretion. The client or Carpenter Associates may terminate the 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, if the fee is based on a percentage of assets under management. The fee is then adjusted for the number of days during the billing quarter prior to termination.

Tax preparation work is often performed as part of the Retained Services Agreement. Eligible federal and applicable state returns may be filed electronically without an additional fee.



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**Investment Management Agreement**

An Investment Management Agreement may be executed when financial planning is not provided as part of the relationship. The maximum annual Investment Management Agreement fee is based on a percentage of the investable assets according to the following schedule:

- 1.00% on the first \$750,000;
- 0.60% on the next \$750,000; and
- 0.40% on the assets above \$1,500,000

The minimum annual fee for an Investment Management Agreement is \$5,000 and is negotiable.

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**Tax Preparation Agreement**

Tax preparation work is usually included in the Retained Services Agreement scope of work.

Tax preparation work to be performed separately from an Retained Services Agreement is billed at a rate of \$175 per hour. This may include tax returns associated with businesses or filings for children etc.

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**Hourly Planning Engagements**

Carpenter Associates provides hourly planning services for clients who need advice on a limited scope of work. The hourly rate for limited scope engagements is \$175.00.

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**Asset Management**

Assets are invested primarily in no-load mutual funds, usually through low cost brokers. 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 generally charges a fee for stock and bond trades. Carpenter Associates 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 Carpenter Associates.

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**Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying Carpenter Associates 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, Carpenter Associates will refund any unearned portion of the advance payment.

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

## **Fees and Compensation**

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### **Description**

Carpenter Associates bases its fees on a percentage of assets under management, hourly charges, Retained Services fees.

Retained Services Agreements are generally priced based on the complexity of work, especially when asset management is not the most significant part of the relationship.

Initial financial planning work is priced on an hourly fee.

Fees are negotiable.

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### **Fee Billing**

Retained Services and Investment management fees are billed quarterly, in arrears, meaning that we invoice you after the three-month billing period has ended. Payment in full is expected upon invoice presentation. 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.

Fees for financial planning are billed after the engagement is completed.

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### **Other Fees**

Custodians may charge transaction fees on purchases or sales of certain mutual funds, exchange-traded funds and stocks. 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.

Carpenter Associates, 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 Retained Services Agreement fees are calculated based on the complexity of individual situations.

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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 Carpenter Associates.

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**

Carpenter Associates reserves the right to stop work on any account that is more than 120 days overdue. In addition, Carpenter Associates reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in Carpenter Associates' judgment, to providing proper financial advice.

## 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.

Carpenter Associates 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**

Carpenter Associates generally provides investment advice to individuals. Carpenter Associates also provides investment advice to pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or business entities.

Client relationships vary in scope and length of service.

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**Account Minimums**

The minimum account size is generally \$500,000 of assets under management, which equates to an annual Retained Services or Investment Management fee of \$5,000.

Carpenter Associates has the discretion to waive the account minimum. Accounts of less than the minimum may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total above the minimum within a reasonable time. Other exceptions will apply to employees of Carpenter Associates 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.

Other sources of information that Carpenter Associates may use include Morningstar and the World Wide Web.

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### **Investment Strategies**

The primary investment strategy used on client accounts is strategic asset allocation. This means that we use passively-managed “index” type mutual funds as the core investments. 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 over 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 investments 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.

## **Disciplinary Information**

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### **Legal and Disciplinary**

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

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

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### **Affiliations**

Carpenter Associates has arrangements that are material to its advisory or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer.

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

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## Code of Ethics

The employees of Carpenter Associates have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

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## Participation or Interest in Client Transactions

Carpenter Associates 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 Carpenter Associates *Compliance Manual*.

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## Personal Trading

The Chief Compliance Officer of Carpenter Associates is David A. Carpenter. He reviews all employee trades each quarter. His trades are reviewed by Rachel DeCarolis. 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, the trades do not affect the securities markets.

# Brokerage Practices

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## Selecting Brokerage Firms

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

Carpenter Associates recommends discount brokerage firms and trust companies (qualified custodians), such as TD Ameritrade Institutional.

Carpenter Associates does not receive fees or commissions from any of these arrangements.

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## Best Execution

Carpenter Associates reviews the execution of trades at each custodian periodically. The review is documented in the Carpenter Associates *Compliance Manual*. Trading fees charged by the custodians is also reviewed periodically. Carpenter Associates does not receive any portion of the trading fees.

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**Soft Dollars**

Carpenter Associates intends to fall under the safe harbor definition of soft dollar benefits from the custodians to whom we recommend clients open accounts under Section 28(e) of the Securities Exchange Act of 1934. Section 28(e) provides a “safe harbor” for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. As required by Section 28(e), the firm will make a good faith determination that the amount of commission or other fees paid is reasonable in relation to the value of the brokerage and compensation to be paid to a broker or dealer is reasonable in relation to the value of all the brokerage and research products and services provided by that broker or dealer. That is, before placing orders with a particular broker, we determine, considering all the factors described below, that the fee charged by a particular broker-dealer is reasonable. In making this determination, we typically consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services and products in our performance of our overall responsibilities to all of our clients. In some cases, the commissions or other transaction fees charged by a particular broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research services or products might charge.

In some cases, with a particular client's consent, we may consider a broker-dealer's provision of non-research products and/or services (i.e., products or services that we do not use in making investment decisions or executing transactions for clients). In such cases, however, the products or services involved are used solely for the benefit of the client in whose account the commissions or other fees are incurred.

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**Order Aggregation**

Most trades are mutual funds or exchange-traded funds where trade aggregation does not garner any client benefit.

## **Review of Accounts**

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**Periodic Reviews**

Account reviews are performed on a regular basis by David A. Carpenter. Staff assistance in the gathering of data for these reviews is significant.

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**Review Triggers**

Conditions that may trigger a review are changes in the tax laws and changes in a client's own situation, client request, new information about an investment.

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**Regular Reports**

Clients receive periodic communications on at least an annual basis. Retained Services Agreement clients, Investment Management clients, receive written quarterly updates. The written updates may include financial plan, portfolio statement, tax return (if the client requests tax preparation services), and a summary of objectives and progress towards meeting those objectives.

## **Client Referrals and Other Compensation**

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**Incoming Referrals**

Carpenter Associates has been fortunate to receive many client referrals over the years. The referrals have come from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

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**Referrals Out**

Carpenter Associates does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

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**Other Compensation**

*None*

## **Custody**

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**Account Statements**

All client assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record 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 Carpenter Associates.

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**Financial Planning Statements**

Clients are frequently provided with cash flow and other statements that are generated from our financial planning software. These statements contain approximations of bank account balances provided by the client, as well as the value of land and hard-to-price real estate. These statements are used for long-term financial planning where the exact values of assets are not material to the financial planning tasks.



## Investment Discretion

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### **Discretionary Authority for Trading**

Carpenter Associates accepts discretionary authority to manage securities accounts on behalf of clients. Carpenter Associates 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.

Carpenter Associates does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

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### **Limited Power of Attorney**

Clients sign a limited power of attorney on the qualified custodian account application granting Carpenter Associates trading authorization on the account. Clients sign a limited power of attorney so that we may execute the trades on their behalf.

## Voting Client Securities

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### **Proxy Votes**

Carpenter Associates does not vote proxies on securities. Clients are expected to vote their own proxies.

## Financial Information

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### **Financial Condition**

Carpenter Associates 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 Carpenter Associates 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**

Carpenter Associates 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, fire, communications line outage, Internet outage, etc. Electronic files are backed up hourly 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.

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**Loss of Key Personnel**

Carpenter Associates has a Business Continuation Agreement with another financial advisory firm to support Carpenter Associates in the event of David A. Carpenter's serious disability or death.

## **Information Security Program**

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**Information Security**

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

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**Privacy Notice**

Carpenter Associates is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from our clients may include information about personal finances, information about health to the extent that it is needed for the financial planning process, information about transactions between clients and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help clients meet their personal financial goals.

With our client's permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. Clients may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With client's permission, we share a limited amount of information with the client's brokerage firm in order to execute securities transactions on their behalf.

We maintain a secure office to ensure our client's information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that

require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and personal records as permitted by law.

Personally identifiable information will be maintained while still a client of Carpenter Associates, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify our clients in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

## Brochure Supplement (Part 2B of Form ADV)

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### Education and Business Standards

Carpenter Associates requires that employees whose function involves providing investment advice to clients have a bachelor's degree and must:

- Have at least 3 years experience in investments, financial planning or accounting
- Hold the Series 65 Investment Advisor Representative license or its equivalent
- Hold or be pursuing one of the following designations: an MBA, an MPFP, a CFP®, a CFA, a ChFC, JD, CTFA, EA, CPA or be a NAPFA-Registered Financial Advisor.
- Subscribe to the Code of Ethics of the National Association of Personal Financial Advisors (NAPFA)
- Be properly licensed for all advisory services in which they are engaged.

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### Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

#### Master Personal Financial Planning (MPFP)

MPFP, Master Personal Financial Planner Certificate is a Bentley University designation which may be obtained by students who already hold a master's degree. Students take graduate level courses in investments, financial planning, taxation, estate planning, and insurance and risk management.

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### DAVID A. CARPENTER, CERTIFICATIONS

Date of birth: November 15, 1955

#### Educational Background:

- Ohio University, BBA, Accounting & Finance 1977
- Bentley College, MST, Master of Science in Taxation 1986
- Bentley College, MPFP, Master Personal Financial Planner Certificate

Business Experience:

Prior to founding Carpenter Associates in 1997, David performed financial management roles for several multinational corporations from 1978-1997. These roles included taxation, cash management, and other treasury functions. He was also a member of the pension committee, and a corporate officer of many of the subsidiaries of these companies. He holds a Series 65 license, and is also a NAPFA-Registered Financial Advisor.

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None