

# **Aljen Asset Management, LLC**

**1140 Parsippany Blvd**

**Suite 103**

**Parsippany, NJ 07054**

**(973) 316-1212**

**March 5, 2012**

This Brochure provides information about the qualifications and business practices of Aljen Asset Management, LLC. If you have any questions about the contents of this Brochure, please contact us at (973) 316-1212 or via email at [pensionadmin@aljenam.com](mailto:pensionadmin@aljenam.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.

Aljen Asset Management, LLC is a Registered Investment Adviser. The CRD number for Aljen Asset Management, LLC is 128962. 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 that you may use to determine whether to hire or retain them. Additional information about Aljen Asset Management, LLC is also available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 - Material Changes

---

There were no material changes to the business in 2011. Our last ADV update was filed 3/28/2011. We are filing this new ADV due to new regulations that require firms with under \$100 million in assets under management to switch to state registration. Once our state registrations are effective we will withdraw from SEC registration.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year which is December 31st. We will provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure, as necessary, based on changes or new information. Currently, our Brochure may be requested at any time, without charge, by contacting Elliott S. Collins at (973) 316-1212.

Additional information about Aljen Asset Management, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for Aljen Asset Management, LLC is 128962. The SEC's web site also provides information about any persons affiliated with Aljen Asset Management, LLC who are registered, or are required to be registered, as investment adviser representatives of Aljen Asset Management, LLC.

## Item 3 - Table of Contents

---

<b>Item 2 - Material Changes .....</b>	<b>2</b>
<b>Item 3 - Table of Contents .....</b>	<b>3</b>
<b>Item 4 - Advisory Business Introduction .....</b>	<b>5</b>
<b>Services .....</b>	<b>5</b>
1. Financial Planning .....	6
2. Asset Management.....	6
3. Other Services.....	8
<b>Item 5 - Fees and Compensation.....</b>	<b>8</b>
1. Financial Planning/Consulting Fees .....	9
2. Asset Management Fee Schedule .....	10
“Fee-only” Asset Management .....	10
“Commission, Fee-offset” Asset Management .....	10
3. Other Fees .....	11
<b>Item 6 - Performance Based Fee and Side by Side Management .....</b>	<b>11</b>
<b>Item 7 - Types of Client(s).....</b>	<b>11</b>
<b>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>11</b>
1. Fundamental Analysis.....	11
2. Modern Portfolio Theory (MPT) .....	12
3. Technical Analysis.....	13
Risks .....	13
<b>Item 9 - Disciplinary Information .....</b>	<b>14</b>
<b>Item 10 - Other Financial Industry Activities and Affiliations.....</b>	<b>14</b>
<b>Item 11 - Code of Ethics.....</b>	<b>14</b>
1. General Information .....	14
Personal Trading .....	14
2. Responsibility.....	15
3. Privacy Statement.....	15
4. Prohibited Acts .....	15
5. Conflicts of Interest .....	16
6. Use of Disclaimers .....	16
7. Suitability .....	16
<b>Item 12 - Brokerage Practices .....</b>	<b>16</b>
1. Soft Dollars .....	16

2. Aggregating Orders.....	17
3. Brokerage for Client Referrals .....	17
4. Directed Brokerage.....	17
<b>Item 13 - Review of Accounts .....</b>	<b>18</b>
1. Duty to Supervise .....	18
2. Reviews.....	18
3. Reports .....	18
<b>Item 14 - Client Referrals and Other Compensation.....</b>	<b>18</b>
<b>Item 15 - Custody.....</b>	<b>19</b>
<b>Item 16 - Investment Discretion .....</b>	<b>19</b>
<b>Item 17 - Voting Client Securities .....</b>	<b>19</b>
<b>Item 18 - Financial Information.....</b>	<b>20</b>
<b>Item 19 - Requirements for State Registered Advisers.....</b>	<b>20</b>
<b>Elliott S. Collins (CRD# 1317745) .....</b>	<b>20</b>
<b>Glossary of Key Terms .....</b>	<b>23</b>

## Item 4 - Advisory Business Introduction

---

Aljen Asset Management, LLC ("AAM") is a Registered Investment Adviser ("Adviser") which offers investment advice, securities, insurance, and other financial services to clients. We are registered through and regulated by the New Jersey Bureau of Securities; additionally, we are licensed to transact investment advisory business and are regulated by the relevant state securities regulatory agencies in California, Colorado, Florida, Georgia, Massachusetts, New York and Pennsylvania.

We provide investment advice through investment adviser representatives ("advisor") associated with us. These individuals are appropriately licensed, qualified, and authorized to provide advisory services on our behalf. In addition, all advisors are required to have earned a college degree and/or have substantive investment-related experience.

AAM was founded in October 2003 by Elliott S. Collins ("Elliott") who serves as Principal and Chief Compliance Officer. We provide portfolio management services to individuals, high net worth individuals, trusts, estates, corporate pension and profit-sharing plans, charitable organizations, foundations, endowments, corporations, trusts, and small businesses. We also provide employee benefits program administration services for business and corporations. We are committed to the precept that by placing the clients' interests first, we will add value to the asset management process and earn the client's trust and respect. We value long term relationships with our clients whom we regard as strategic partners in our business.

### Services

---

We provide various asset management and financial planning services, with an emphasis on investment management and employee benefits administration. Our focus is on helping you develop and execute plans that are designed to build and preserve your wealth. We do not participate in wrap fee programs.

As of 12/31/2011, we provided asset management services for 1145 accounts, managing total assets of \$52,000,000.

This amount is managed on a non-discretionary basis; which means we will not do anything affecting your account without your consent. Trading may be required to meet your initial allocation targets, after substantial cash deposits that require investment allocation, and/or after a request for a withdrawal that requires liquidation of a position. However, we will obtain your approval before trading. In addition, your account may be rebalanced or reallocated periodically in order to reestablish the targeted percentages of your initial asset allocation. This will be discussed with you prior to executing any transactions. You will be responsible for any and all tax consequences resulting from any rebalancing or reallocation of the account. We are not tax professionals and do not give tax advice. However, we will work with your tax professionals to assist you with tax planning. You will have the opportunity to meet with us periodically to review the assets in your account.

## **1. Financial Planning**

We provide a broad spectrum of comprehensive financial planning and consulting services, which can include non-investment related topics. Fee based financial planning is a comprehensive relationship which incorporates many different aspects of your financial status into an overall plan that meets your goals and objectives. The financial planning relationship consists of face to face meetings and ad hoc meetings with your other advisors (attorneys, accountants, etc.).

In performing financial planning services, we typically examine and analyze your overall financial situation, which may include such issues as taxes, insurance needs, overall debt, credit, business planning, retirement savings and reviewing your current investment program. Our services may focus on all or only one of these areas depending upon the scope of our engagement with you.

You must agree to provide the information and documentation we request regarding your income, investments, taxes, insurance, estate plan, etc. You also must agree to discuss your investment objectives, needs and goals, and to keep us informed of any changes. We do not verify any information obtained from you, your attorney, accountant or other professionals.

If you engage us to perform these services, you will receive a written agreement detailing the services, fees, terms and conditions of the relationship. You will also receive this Brochure.

You may decide to implement your plan recommendations through us or we may recommend the services of other professionals for implementation purposes. You are under no obligation to engage us or any of the recommended professionals to implement your plan. You may implement your financial plan through any financial organization of your choice.

We obtain information from a wide variety of publicly available sources. We do not have any inside private information about any investments that are recommended. All recommendations developed by us are based upon our professional judgment. We cannot guarantee the results of any of our recommendations. You must decide what advice to follow.

## **2. Asset Management**

Asset management is the professional management of securities (stocks, bonds and other securities) and assets (e.g., real estate) in order to meet your specified investment goals. With an Asset Management Account, you engage us to assist you in developing a personalized asset allocation program and custom-tailored portfolio designed to meet your unique investment objectives. The investments in the portfolio account may include various no-load and/or load waived mutual fund classes and/or individual debt and equity securities in accordance with your investment objectives.

We will meet with you to discuss your financial circumstances, investment goals and objectives, and to determine your risk tolerance. We will ask you to provide statements summarizing current investments, income and other earnings, recent tax returns, retirement plan information, other assets and liabilities, wills and trusts, insurance policies, and other pertinent information. Based on the information you share with us, we will analyze your situation and recommend an appropriate asset allocation or investment strategy. You will be provided with a targeted strategic allocation of assets by class, as well as limited investment advice. Our recommendations and ongoing management is based upon your investment goals and objectives, risk tolerance, and the investment portfolio you have selected. We will

monitor the account, trade as necessary, and communicate regularly with you. Your circumstances shall be monitored in quarterly and annual account reviews. These reviews will be conducted in person, by telephone conference, and/or via a written inquiry/questionnaire. We will work with you on an ongoing basis to evaluate your asset allocation as well as rebalance your portfolio to keep it in line with your goals as necessary. We will be reasonably available to help you with questions about your account. You will also receive our Advisory Agreement which describes what services you will receive and what fees you will be charged.

We will:

- Review your present financial situation
- Monitor and track assets under management
- Provide portfolio statements, periodic rate of return reports, asset allocation statement, rebalanced statements as needed
- Advise on asset selection
- Determine market divisions through asset allocation models
- Provide research and information on performance and fund management changes
- Build a risk management profile for you
- Assist you in setting and monitoring goals and objectives
- Provide personal consultations as necessary upon your request or as needed

You must notify us promptly when your financial situation, goals, objectives, or needs change.

You shall have the ability to impose reasonable restrictions on the management of your account, including the ability to instruct us not to purchase certain mutual funds, stocks or other securities. These restrictions may be a specific company security, industry sector, asset class, or any other restriction you request.

Under certain conditions, securities from outside accounts maybe transferred into your advisory account; however, we may recommend that you sell any security if we believe that it is not suitable for the current recommended investment strategy. You are responsible for any taxable events in these instances. We do not provide tax advice or tax management services. You should always consult with your tax advisor for specific tax advice. Certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the market and economy. Past performance is not indicative of future results.

If you decide to implement our recommendations, we will help you open a custodial account(s). The funds in your account will be held at an independent custodian, not with us. We recommend using Fidelity Investments ("Fidelity"); however, you can use anyone you wish. The identity of your custodian will be communicated to you before the account is opened. You will enter into a separate custodial agreement with the custodian. This agreement, among other things, authorizes the custodian to take instructions from us regarding all investment decisions for your account. With your prior approval, we will provide recommendations regarding the securities to be bought and sold and the amounts to be bought and sold, within the parameters of the investment objectives and risk tolerance of your account. The custodian will effect transactions, deliver securities, make payments and do what we instruct. You will receive trade confirmations from the Custodian. You will at all times maintain full and complete

ownership rights to all assets held in your account, including the right to withdraw securities or cash, proxy voting and receiving transaction confirmations.

You will receive, at least quarterly, a statement containing a description of all the activity in your account from the custodian. This statement lists the total value at the start of the quarter, itemizes all transaction activity during the quarter, and lists the types, amounts, and total value of securities held as of the end of the quarter. Your statement may be in either printed or electronic form based upon your preferences.

We will also provide you with a performance statement at least annually. These statements give you additional feedback regarding performance, educate you about our long-term investment philosophy, and describe any changes in current strategy and allocation along with the reasons for making these changes.

We are available during normal business hours either by telephone, fax, email, or in person by appointment to answer your questions.

### **3. Other Services**

Our advisors are also licensed insurance agents with various insurance companies and may recommend the purchase of certain insurance-related products. Our advisors will receive the usual and customary commissions for the sales of these products.

We may also render non-discretionary investment management services to you regarding variable annuity products you may own, or your individual employer-sponsored retirement program. We will either direct or recommend the allocation of assets among the various subaccounts which comprise the variable annuity product or the retirement plan. Your assets will be maintained at either the specific insurance company that issued the variable annuity product or at the custodian designated by the sponsor of your retirement plan. We will receive the usual and customary commission directly from the insurance company as compensation. You will not be charged an advisory fee for these services.

We may also provide comprehensive financial planning and consulting services pertaining to non-investment-related matters. We can provide research and advice concerning any legal and legitimate investment for which public information is readily available. We can also provide an in-depth analysis of your financial situation or other defined projects as requested.

## **Item 5 - Fees and Compensation**

---

We provide asset management and financial planning services for a fee. Our fees do not include brokerage commissions, transaction fees, and other related costs and expenses. You may incur certain charges imposed by custodians, third party investment companies and other third parties. These include fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, money market funds and exchange traded funds also charge internal management fees, which are disclosed in the fund's prospectus. These fees may include, but are not limited to, a management fee, upfront sales charges, and other fund expenses. We do not receive any



compensation from these fees. All of these fees are in addition to the management fee you pay us. You should review all fees charged to fully understand the total amount of fees you will pay. Services similar to those offered by us may be available elsewhere for more or less than the amounts we charge.

You could invest in a mutual fund directly, without our services. In that case, you would not receive the services provided by us which are designed, among other things, to assist you in determining which mutual fund or funds are most appropriate to your financial condition and objectives.

Our Advisory Agreement/Financial Planning Agreement defines what fees are charged and their frequency. Either party may terminate the initial agreement at any time by providing written notice to the other party within five (5) business days of signing the agreement. You will incur charges for advisory or consulting services rendered up to the point of termination and such fees will be due and payable by you within five business days of being billed. Refunds will be given on a pro-rata basis within five business days of cancellation. Accounts opened or terminated during a calendar quarter will be charged a prorated fee. Once an account is established, either party may terminate the relationship with a 30 day written notice. Upon termination of any account, any prepaid fees that are in excess of the management services performed will be promptly refunded to you. Any fees that are due, but have not been paid, will be billed to you and are due immediately.

## **1. Financial Planning/Consulting Fees**

You may want us to create a financial plan for you. You can have us create a full financial plan or select any of the individual modules.

For financial planning fees, we provide two options: planning for a fixed fee and planning conducted on an hourly basis. Our fixed fees start at \$150 and increase depending upon the circumstances and complexities of your plan. Our hourly rates range from \$150 to \$250. All of our fees are negotiable.

Based upon your needs, we may also provide consultations throughout the year to advise and counsel you about other financial issues. We can help you with transition planning, major transaction analysis, coordinated with cash flow needs, retirement needs, estate planning needs, income tax planning, life and disability insurance needs, investment needs, and college education planning.

If the plan is implemented through us, we may receive compensation from the sale of insurance or securities products or services recommended in the financial plan. This compensation would be in addition to the financial planning fee you pay. The fees and expenses you pay for the purchase of these products may be more or less than the expenses you would pay should you decide to implement our recommendations through another investment advisory firm or broker-dealer and are typically determined by the broker-dealer or investment company sponsoring the product. Therefore, a conflict of interest may exist between our interests and your interests since we may recommend products that pay us compensation. We may have an incentive to recommend particular products based upon the potential compensation rather than your needs. This potential conflict is prohibited in our Code of Ethics.

The Financial Planning Agreement will show the fee you will pay; fees are negotiable. Fees are charged in advance and are refundable on a pro-rata basis. In the event that you cancel the financial consultation agreement, you will be responsible for the actual hours spent preparing the financial plan,

up to the cancellation date, at the agreed upon hourly rate. The financial planning agreement will terminate as agreed to in your financial planning agreement.

All recommendations developed by us are based upon our professional judgment. We cannot guarantee the results of any of our recommendations. You must decide what advice to follow.

## **2. Asset Management Fee Schedule**

Our minimum account opening balance is typically \$50,000. You may opt to implement investment recommendations on either a commission, fee-offset basis or a fee-only basis.

### **“Fee-only” Asset Management**

The fee charged is based upon the amount of money you have invested with Aljen Asset Management. Payments are due and will be assessed on the last day of each quarter, based on the ending balance of the account under management for the preceding quarter. Depending upon the amount of assets under management, fees shall range from 0.50% to 1.50% annually.

You will be billed one quarter of this amount on a quarterly basis. No increase in the annual fee shall be effective without prior written notification to you. The fees we charge can be deducted directly from your account at the custodian. We will instruct the Custodian to deduct the fees from your account at the end of the calendar quarter. This fee will show up as a deduction on your following month's account statement from the Custodian. We recommend using Fidelity as your custodian with this option.

### **“Commission, Fee-offset” Asset Management**

The fee charged is based upon commissions and sales charges assessed when you invest in the individual securities and securities products as part of your asset management strategy. Your advisor will receive a portion of the assessed commission and sales charges as disclosed in your asset management agreement and any applicable product sales literature. Your management fee will be offset by the commissions earned by your advisor. The commission, fee-offset option is offered on a non-discretionary basis; we recommend PKS as your custodian/broker-dealer.

We believe our advisory fee is reasonable considering the fees charged by other investment advisers offering similar services/programs. In certain circumstances, advisory fees and account minimums may be negotiable based upon prior relationships as well as related account holdings. Our fees will not be based upon a share of capital gains or capital appreciation of the funds or any portion of your funds. In no event shall we charge advisory fees that are both in excess of six hundred dollars and more than six months in advance of advisory services rendered.

Certain strategies offered by us involve investment in mutual funds. Load and no load mutual funds may pay annual distribution charges, sometimes referred to as “12(b) (1) fees”. These 12(b) (1) fees come from fund assets, and thus indirectly clients’ assets. We may receive compensation from these fees if you participate in the commission fee-offset based program. The 12(b) (1) fee, deferred sales charges and other fee arrangements will be disclosed upon your request and are typically described in the applicable fund’s prospectus.

Your account at the custodian may also be charged for certain additional assets managed for you by us but not held by the Custodian (i.e. variable annuities, mutual funds, 401(k) s).

### **3. Other Fees**

We can provide research and advice concerning any legal and legitimate investment for which public information is readily available. We will charge hourly fees of \$100 to \$150 or we can provide you with a fixed project cost. We can also provide an in-depth analysis of your financial situation or other defined projects as requested on a fee-only basis.

### **Item 6 - Performance Based Fee and Side by Side Management**

---

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

### **Item 7 - Types of Client(s)**

---

We provide portfolio management services to individuals, trusts, estates, corporate pension and profit-sharing plans, charitable organizations, foundations, endowments, corporations and small business owners. Our minimum account opening balance is typically \$50,000; however, this may be negotiable under certain circumstances.

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

---

We use Fundamental and Technical Analyses as well as Modern Portfolio Theory as part of our overall investment management discipline; the implementation of these analyses as part of our investment advisory services to you may include any, all or a combination of the following:

#### **1. Fundamental Analysis**

We use the fundamental method of investment analysis for the selection of mutual funds. The process filters the potential number of mutual fund managers for their respective investment style.

Fundamental analysis serves to answer questions, such as:

- What is the size of the fund?
- Is the money manager or management team consistent in their investment style?
- Is the manager's performance consistent when compared to his peers?
- What is that manager's tenure with the fund?
- Are the internal costs competitive relative to other managers in that style?

One of the primary objectives of fundamental analysis is to provide current analysis of funds we recommend, whether for selection or de-selection. We use a combination of qualitative and quantitative factors to try and find funds that will perform well in their investment style. We look at both investment performance (relative to the peer group and the market) and modern portfolio statistics (like beta and standard deviation) to analyze the level of risk a manager takes to achieve those returns. When we are examining a fund, we will look at the fund's annual turnover, sector weightings and many other quantitative factors.

The end goal of performing fundamental analysis is to produce short list of funds, with the aim of figuring out what sort of position to take with those funds.

In order to perform this fundamental analysis, we use many resources, such as:

- Morningstar
- Financial newspapers and magazines (e.g. Wall Street Journal, Forbes, etc.)
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Research materials prepared by others
- Company press releases
- Corporate rating services
- Timing Services
- Company websites
- Inspections of corporate activities

The investment strategies we use to implement any investment advice given to you include, but are not limited to:

- Long term purchases -securities held at least a year
- Short term purchases - securities sold within a year
- Trading -securities sold within 30 days
- Short sales
- Margin Transactions
- Option writing, including covered options, uncovered options or spreading strategies

Once we discover undervalued funds, funds that are investing in undervalued stocks; we look at the company offering these funds to determine stability and volatility of the funds.

## **2. Modern Portfolio Theory (MPT)**

We use publically available research and reports regarding individual securities, issuers, investment strategies and performance of asset classes to select the funds they will offer. They also use Modern Portfolio Theory to help them select the funds they offer. Modern Portfolio Theory was created by some of the world's leading academic economist. They conducted extensive research, demonstrating that asset class selection (such as small-cap vs. large-cap, value vs. growth and U.S. vs. international)-not stock selection or market timing-is the most important determinant of portfolio performance. They also received a Nobel Prize for revealing these four tenets:

1. Markets process information so rapidly when determining security prices, that it is extremely difficult to gain a competitive edge by taking advantage of market anomalies or inefficiencies.
2. Over time, riskier investments provide higher returns as compensation to investors for accepting greater risk.
3. Adding high-risk, low correlating asset classes to a portfolio can actually reduce volatility and increase expected rates of return.
4. Passive asset class fund portfolios can be designed to deliver over time the highest expected returns for a chosen level of risk.

Modern portfolio theory tries to understand the market as a whole, rather than looking for what makes each investment opportunity unique. Investments are described statistically, in terms of their expected long-term return rate and their expected short-term volatility. The volatility is equated with "risk", measuring how much worse than average an investment's bad years are likely to be. The end goal is to identify your acceptable level of risk tolerance, and then to find a portfolio with the maximum expected return for that level of risk

### **3. Technical Analysis**

Technical Analysis is a technique that attempts to determine a security's value by developing models and trading rules based upon price and volume transformation. Technical analysis assumes that a market's price reflects all relevant information so the analysis focuses on the history of a security's trading behavior rather than external drivers such as economic, fundamental and news events. The practice of technical analysis incorporates the importance of understanding how market participants perceive and act upon relevant information rather than focusing on the information itself. Ultimately, technical analysts develop trading models and rules by evaluating factors such as market trends, market participant behaviors, supply and demand and pricing patterns and correlations.

In order to perform technical analysis, we use the following techniques:

- Calculate moving averages
- Stochastic oscillators, which incorporate support and resistance levels to determine momentum.
- Charting and chart patterns
- Supply and demand indicators
- Investor behavior and psychology

The investment strategies we use to implement any investment advice given to you include, but are not limited to:

- Long term purchases (securities held at least a year)
- Short term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Margin Transaction
- Option writing, including covered, uncovered and spread option strategies

As with other types of analysis, the predictive nature of technical analysis can vary greatly; models and rules are often modified and updated as new patterns and behaviors develop. Past performance is not an indicator of future return.

#### **Risks**

We cannot guarantee our analysis methods will yield a return. In fact, a loss of principle is always a risk. Investing in securities involves a risk of loss that you should be prepared to handle. You need to understand that investment decisions made for your account by us are subject to various market, currency, economics, political and business risks. The investment decisions we make for you will not always be profitable nor can we guarantee any level of performance. For a more comprehensive description of all the risks associated with our strategies, methodology, and products please refer to the glossary under Risks.

## 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 us or the integrity of our management. We have no information to disclose here about the firm or any of our investment advisors. We adhere to high ethical standards for all advisors and associates. We strive to do what's in your best interests.

## Item 10 - Other Financial Industry Activities and Affiliations

---

Elliott S. Collins, Principal and Chief Compliance Officer of AAM is a registered representative of Purshe Kaplan Sterling Investments ("PKS") and in that capacity may affect securities brokerage transactions on a commission basis.

Elliott is also a licensed insurance agent/broker in New Jersey and Florida with various companies. In his role as an insurance agent/broker, he may offer commissionable (non-variable) insurance products to you for which he may receive compensation from insurance companies. He may recommend and sell life, health, and long-term care insurance and will receive the usual and customary commissions. As Elliott is not licensed to sell insurance products in Pennsylvania; he will not recommend these products to residents of Pennsylvania. The sale of these products accounts for approximately 10% of his time. Elliott spends 15% of his time doing financial planning and 75% of his time doing investment management.

Because of these affiliations a conflict of interest may exist between our interests and your interests since we may recommend products that pay us additional compensation. We may have an incentive to recommend particular products based upon the potential compensation rather than your needs. We have policies and procedures in place to monitor this. We also have a fiduciary duty to put your interests before our own.

Aljen Asset Management, LLC also operates as a Third Party Administration (TPA) for qualified retirement plans.

## Item 11 - Code of Ethics

---

### 1. General Information

We have adopted a Code of Ethics for all supervised persons of the firm describing its high standards of business conduct, and fiduciary duty to you, our client. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All of our supervised persons must acknowledge the terms of the Code of Ethics annually, or as amended.

### Personal Trading

We may recommend securities to you that we have purchased for our own accounts. We may trade securities in our account that we have recommended to you as long as we place our orders after your

orders. This policy is meant to prevent us from benefiting as a result of transactions placed on behalf of advisory accounts.

We have established the following restrictions in order to ensure our fiduciary responsibilities to you are met:

- We shall not buy or sell securities for our personal portfolio(s) where this decision is substantially derived, in whole or in part, from our role as an Investment Advisory Representative of AAM, unless the information is also available to the investing public on reasonable inquiry. In no case, shall we put our own interests ahead of yours.
- We emphasize your unrestricted right to decline to implement any advice rendered.

However, some securities trade insufficiently broad markets to permit transactions by clients to be completed without an appreciable impact on the markets of the securities. Under certain circumstances, exceptions may be made to the policies stated above. Records of these trades, including the reasons for the exceptions, will be maintained with our records as required.

In addition, open-end mutual funds and/or investment sub-accounts which may comprise a variable insurance product are purchased or redeemed at a fixed net asset value. Therefore, purchases of mutual funds and/or variable insurance products by an advisor are not likely to have an impact on the prices of the fund in which you invest. These types of transactions are not prohibited by our policies and procedures.

Certain affiliated accounts may trade in the same securities with your accounts on an aggregated basis when consistent with our obligation of best execution. When trades are aggregated, all parties will share the costs in proportion to their investment. We will retain records of the trade order (specifying each participating account) and its allocation. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

You may request a copy of the firm's Code of Ethics by contacting Elliott S. Collins.

## **2. Responsibility**

It is the responsibility of all supervisory personnel to ensure that we conduct business with the highest level of ethical standards and in keeping with our fiduciary duties to you. We must put your interests first and refrain from having outside interests that conflict with your interests.

## **3. Privacy Statement**

We are committed to safeguarding your confidential information and hold all personal information provided to it in the strictest confidence. These records include all personal information that we collect from you or receive from other firms in connection with any of the financial services they provide. We also require other firms with whom we deal with to restrict the use of your information. Our Privacy Policy is available upon request.

## **4. Prohibited Acts**

The following acts are prohibited:

- Employing any device, scheme or artifice to defraud
- Making any untrue statement of a material fact
- Omitting to state a material fact necessary in order to make a statement, in light of the circumstances under which it is made, not misleading
- Engaging in any fraudulent or deceitful act, practice or course of business
- Engaging in any manipulative practices

## **5. Conflicts of Interest**

We have a duty to disclose potential and actual conflicts of interest to you and to management. Gifts (other than de minimis gifts, which are usually defined as having a value under \$100.00) should not be accepted from persons or entities doing business with us.

We act in a fiduciary capacity. If a conflict of interest arises between us and you, we shall make every effort to resolve the conflict in your favor. Conflicts of interest may also arise in the allocation of investment opportunities among the accounts that we advise. We will seek to allocate investment opportunities according to what we believe is appropriate for each account. We strive to do what is equitable and in the best interest of all the accounts we advise.

## **6. Use of Disclaimers**

We shall not attempt to limit liability for willful misconduct or gross negligence through the use of disclaimers.

## **7. Suitability**

We shall only recommend those investments that we believe are suitable for you based upon your particular situation and circumstances. In addition, you must notify us of any significant changes in your situation or circumstances so that we can respond appropriately.

# **Item 12 - Brokerage Practices**

---

## **1. Soft Dollars**

We have an arrangement with National Financial Services LLC and Fidelity Brokerage Services LLC to use their "institutional platform services." The institutional platform services include brokerage, custody, and other related services. These services assist us in managing and administering your accounts. The services include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of fees from clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Fidelity also offers other services to help us manage and develop our advisory practice. These services include performance reporting, financial planning, contact management systems, third party research, publications, access to educational conferences, roundtables and webinars, practice management resources, and access to consultants and other third party service providers who provide a wide array of business related services and technology.



Although this is not a material consideration when determining whether to recommend that you use Fidelity, it is a potential conflict of interest. We recommend Fidelity based upon their reputation, quality execution and strong customer service. The research products and/or services that may be obtained by us will generally be used to service all of our clients; however a brokerage commission paid by a specific client may be used to pay for research or services that are not used in managing that specific client's account.

## **2. Aggregating Orders**

We will generally place your trades individually through your accounts unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may, but are not obligated to, combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients differences in prices and commission or other transaction costs. Under this procedure, transactions will be price-averaged and allocated among our clients in proportion to the purchase and sale orders placed for each client account on any given day.

## **3. Brokerage for Client Referrals**

Due to our advisors being registered representatives of Purshe Kaplan Sterling Investments, we could receive additional compensation for any securities transactions effected through them. Therefore we may have an incentive to recommend products that can be implemented through them. However, since our business model is based around asset management and not sales of securities products, this is unlikely to occur. You will always be fully informed when we are acting in a registered representative capacity. We have a fiduciary duty to you and are prohibited from doing anything that is not in your best interest.

## **4. Directed Brokerage**

By directing brokerage to Fidelity, you may pay higher fees or transaction costs than those obtainable by other broker-dealers. In most cases, we believe you are paying a discounted and reasonable rate. You may pay higher or lower fees if you select another broker-dealer. Generally, we will not negotiate lower rates below the rates established by the executing broker-dealer for this type of directed brokerage account, unless we believe that such rate is unfair or unreasonable for the size and type of transaction. We believe that Fidelity pays industry standard commissions on transactions they handle for us. These commissions are reasonable and customary.

Not all advisory firms require you to direct brokerage to a specific broker/dealer. We have an obligation to seek best execution for you. In seeking best execution, the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Broker-Dealer's services including the value of research provided, execution capability, commission rates, and responsiveness. Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for account transactions.

## Item 13 - Review of Accounts

---

### 1. Duty to Supervise

We are responsible for ensuring adequate supervision over the activities of all persons who act on our behalf. Specific duties include:

- Establish procedures that could be reasonably expected to prevent and detect violations of law by our Advisory personnel
- Analyze operations and create a system of controls to ensure compliance with applicable securities laws
- Ensure that all Advisory personnel fully understand the Company's policies and procedures
- Establish a review system designed to provide reasonable assurance that our policies and procedures are effective and being followed

### 2. Reviews

Reviews will be conducted by our Principal Elliott Collins on an ongoing basis for investment advisory services. We will meet with you at least annually to comprehensively review your financial plan and related activities. You may request more frequent reviews and may set thresholds for triggering events that would cause a review to take place. Generally, we will monitor for changes and shifts in the economy, changes to the management and structure of a mutual fund or company in which client assets are invested, and market shifts and corrections. You should notify us promptly of any changes to your financial goals, objectives or financial situation as such changes may require us to review your portfolio and make recommendations for changes.

### 3. Reports

We will send you and the Custodian a bill simultaneously showing the amount of the management fee, the value of the assets on which the fee was based, and the specific manner in which the fee was calculated

You will be provided with account statements reflecting the transactions occurring in the account on a regular basis from your custodian. These statements will be written or electronic depending upon what you selected when you opened the account. You will be provided with confirmations for each securities transaction executed in the account. You must notify us of any discrepancies in the account or any concerns you have about the account. If you engage us to provide investment management services, we will provide to you reports at least annually summarizing your account activity and performance.

## Item 14 - Client Referrals and Other Compensation

---

We do not receive any compensation for referring clients to another advisor nor do we receive any compensation from another advisor for them referring clients to us.

## **Item 15 - Custody**

---

We do not have physical custody of any accounts. However, we may be deemed to have custody of your accounts since we have the ability to deduct your quarterly fees from the custodian. We use Fidelity Investments or Purshe Kaplan Sterling Investments as the custodian and/or broker-dealer for all your accounts. You should receive at least quarterly statements from the broker-dealer or custodian that holds and maintains your investment assets. We urge you to carefully review such statements and compare this official custodial record 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. If you notice any discrepancies, please contact Elliott S. Collins.

We do not debit the client fees directly from your advisory account, we instruct the custodian to deduct the fee. The custodian has the authority to directly charge and debit the advisory to your account, which they then forward to us. The Custodian will provide you immediate transaction confirmations and monthly statements, either by mail or electronically per your request. Monthly statements list the total value of the account at the start and end of the month and itemize all transactions and security positions. For taxable accounts, the Custodian will provide you consolidated year-end summary statements including IRS forms 1099 and other tax-related forms, as applicable. We are not allowed to make alterations or amendments to the custodian's statement. This preserves the integrity of the Custodian's statement and provides you with an independent appraisal of the account.

## **Item 16 - Investment Discretion**

---

We do not receive discretionary authority from you to select the type of securities and amount of securities to be bought or sold. We usually only have the ability to rebalance and reallocate your accounts on a quarterly basis, with your permission.

## **Item 17 - Voting Client Securities**

---

As a matter of firm policy and practice, we do not have any authority to and do not vote proxies on behalf of advisory clients. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. We may provide advice to you regarding your voting of proxies. We are authorized to instruct the Custodian to forward you copies of all proxies and shareholder communications relating to your account assets.

## Item 18 - Financial Information

---

We are required to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that would impair our ability to meet any contractual and fiduciary commitments to you, our client. We have not been the subject of any bankruptcy proceedings.

## Item 19 - Requirements for State Registered Advisers

---

There is one principal of Aljen Asset Management, LLC, Elliott S. Collins ("Elliott"). His information is as follows:

### **Elliott S. Collins (CRD# 1317745)**

#### **Position**

Principal / Founder / Chief Compliance Officer

#### **Date of Birth**

1947

#### **Education**

Bachelor of Science in Business Administration, 1969  
Babson College, Babson Park, MA

#### **Designations**

CFP®, 1992  
College of Financial Planning, Denver, CO

#### **Minimum Designation Requirements**

#### **Certified Financial Planner (CFP)**

The CERTIFIED FINANCIAL PLANNER™, CFP® and federally registered CFP (with flame design) marks (collectively, the "CFP® marks") are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. ("CFP Board").

The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP® certification in the United States.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

- **Prerequisites/Experience:** Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year)

- **Educational Requirements:** Complete an advanced college level course of study addressing the financial planning subject areas that CFP Board's studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor's Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board's financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning
- **Examination Type:** Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one's ability to correctly diagnose financial planning Issues and apply one's knowledge of financial planning to real world circumstances
- **Ethics:** Agree to be bound by CFP Board's Standards of Professional/Conduct, a set of documents outlining the ethical and practice standards for CFP® professionals

Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

- **Continuing Education/Experience Requirements:** Complete 30 hours of continuing education hours every two years, including two hours on the Code of Ethics and other parts of the Standards of Professional Conduct to maintain competence and keep up with developments In the financial planning field
- **Ethics:** Renew an agreement to be bound by the Standards of Professional Conduct. The Standards prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services In the best interests of their clients

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board's enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

## Business History

October 2003 – Present	Founder and Principal at Aljen Asset Management, LLC
May 2003 – Present	Registered Representative at Purshe Kaplan Sterling Investments
October 1989 – December 2003	Founder and Officer at WesCliffe Asset Management, Inc.
January 1998 – May 2003	Registered Representative at The Concord Equity Group, LLC
November 1991 – January 1998	Registered Representative at Walnut Street Securities, Inc.

## Licenses

Elliott holds multiple FINRA licenses including the Series 7 and 63. He is licensed to transact investment advisory services and securities business in New Jersey and Florida. Elliott is also a licensed insurance agent/broker in New Jersey and Florida with various companies.

**Specialty**

Elliott specializes in developing financial plans, estimating and monitoring long-term financial goals and money management for individuals; Elliott also provides full service employee benefits program administration. Each aspect of the investment management and financial planning process is tailored to the unique needs of his clients.

## Glossary of Key Terms

---

**Adviser** – Aljen Asset Management, LLC

**Advisor** – Your individual representative at Aljen Asset Management, LLC

**Asset Allocation**– The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institutions specific situation and goals; a key concept in financial planning and money management.

**Asset-class investment portfolios**–An asset class is a grouping of similar investments whose prices tend to move together. Asset classes can be defined on a very general level, such as stocks or on a more specific level, such as American silver producing companies. The concept of asset classes is important because one of the goals when building an investment portfolio is to use different asset classes which are not correlated with each other.

### Designations

- **The CFP®, CERTIFIED FINANCIAL PLANNER™** and certification marks are financial planning credentials awarded by Certified Financial Planner Board of Standards Inc. (CFP Board) to individuals who meet education, examination, and experience and ethics requirements. CFP® certificate holders are required to have 30 continuing education hours every two years. [www.cfp.net](http://www.cfp.net).

**Diversification** – a portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction. The goal of diversification is to reduce the risk in a portfolio. Volatility is limited by the fact that not all asset classes or industries or individual companies move up and down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

**Exchange-Traded Funds (ETFs)** — A type of an investment company (either an open-end company or UIT) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end companies and UITs, because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a secondary market and are only redeemable from the fund itself in very large blocks (blocks of 50,000 shares for example).

**Expense Ratio** — the fund's total annual operating expenses (including management fees, distribution (12b-1) fees, and other expenses) expressed as a percentage of average net assets.

**Fees**– a list of all fees associated with different products we offer are listed below:

1. **12b-1 Fees** — Fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. "Distribution fees" include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing

and mailing of sales literature. "Shareholder Service Fees" are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.

2. **Account Fee** — A fee that some funds separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.
3. **Distribution Fees** — Fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as "12b-1 fees."
4. **Management Fee** — fee paid out of fund assets to the fund's investment adviser or its affiliates for managing the fund's portfolio, any other management fee payable to the fund's investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not included in the "Other Expenses" category. A fund's management fee appears as a category under "Annual Fund Operating Expenses" in the Fee Table.
5. **Operating Expenses** — the costs a fund incurs in connection with running the fund, including management fees, distribution (12b-1) fees, and other expenses.
6. **Purchase Fee** — a shareholder fee that some funds charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.
7. **Redemption Fee** — a shareholder fee that some funds charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.
8. **Sales Charge (or "Load")** — the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund, similar to a commission. The SEC's rules do not limit the size of sales load a fund may charge, but FINRA rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.
9. **Shareholder Service Fees** — fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also "12b-1 fees."

**Index Fund** — describes a type of mutual fund or Unit Investment Trust (UIT) whose investment objective typically is to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Wilshire 5000 Total Market Index.

**Investment Adviser** — generally, a person or entity who receives compensation for giving individually tailored advice to a specific person on investing in stocks, bonds, or mutual funds. Some investment advisers also manage portfolios of securities, including mutual funds.

**Investment Company** — a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are mutual funds, closed-end funds, and unit investment trusts (UITs).



**Investment Goals** – objective or target, usually driven by specific future financial needs. Some common goals for an individual are: saving for a comfortable retirement, saving to send children to college, managing finances to enable a home purchase, minimizing taxes, and maximizing return on investments given a certain risk tolerance, and estate or trust planning.

**Investment Objectives** – The financial goal or goals of an investor. An investor may wish to maximize current income, maximize capital gains, or set a middle course of current income with some appreciation of capital. Defining investment objectives helps to determine the investments an individual should select.

**Margin** — borrowing money (usually using securities you already own as collateral) that is used to purchase securities

**Mutual Fund** — the common name for an open-end investment company. Like other types of investment companies, mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market.

**NAV (Net Asset Value)** — the value of the fund's assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund's liabilities from its assets and then divide the result by the number of shares outstanding.

**No-load Fund** — a fund that does not charge any type of sales load. Not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

**Open-End Company** — the legal name for a mutual fund. An open-end company is a type of Investment Company that continuously offers new shares for sale.

**Option Contracts**—Options are a type of derivative; derivatives are securities whose prices are derived from the price of an underlying asset or group of assets. The most common underlying assets are equities, debt, commodities and currencies; option contracts also exist for indices and interest rates. Options consist of a type (call or put), a strike price (the price at which the underlying asset is delivered), a premium (the price a buyer pays the seller for the option contract) and an expiration date. Options come in two types:

- **Calls:** Calls provide buyers, also known as holders, the right (but not the obligation) to purchase a specified amount of the underlying asset from the Seller. Calls obligate sellers, also known as writers, to sell a specified amount of the underlying asset to the buyer at the strike price.
- **Puts:** Puts provide buyers, also known as holders, the right (but not the obligation) to sell a specified amount of the underlying asset to Seller. Puts obligate sellers, also known as writers, to buy a specified amount of the underlying asset from the buyer at the strike price.

For each type of option, the buyer may exercise his or her right prior to or at expiration. For stock options, the amount covered by the option is usually 100 shares. If the stock option contract is exercised, the writer is responsible for fulfilling the terms of the contract by delivering the shares to the

holder. In the case of a security that cannot be delivered such as an index, the contract is settled in cash. For the holder, the potential loss is limited to the price paid to acquire the option. When an option is not exercised, it expires. No shares change hands and the money spent to purchase the option is lost. For the buyer, the upside is unlimited. Option contracts, like stocks, are therefore said to have an asymmetrical payoff pattern. For the writer, the potential loss is unlimited for uncovered calls and limited to the strike price less the premium received for uncovered puts. For the option writer, gains are limited to the payment received for the options. Option writers can also write covered options, meaning that the writer already owns or has sold the security underlying the option. Option contracts are most frequently utilized to increase leverage or provide downside protection on an underlying asset. As leverage, options allow the holder to control equity in a limited capacity for a fraction of what the shares would cost. The difference can be invested elsewhere until the option is exercised. As protection, options can guard against price fluctuations in the near term because they provide the right to acquire the underlying stock at a fixed price for a limited time. Risk is limited to the option premium (except when writing options for a security that is not already owned). However, the costs of trading options (including both commissions and the bid/ask spread) are higher on a percentage basis than trading the underlying stock. Options are also a wasting asset, meaning that their value eventually declines to zero if not exercised. In addition, options are very complex and require a great deal of observation and maintenance. Some types of option strategies involving multiple option contracts have unknown risks because the price movements between the different option contracts are not well understood.

**Portfolio** — an individual's or entity's combined holdings of stocks, bonds, or other securities and assets.

**Profile** — summarizes key information about a mutual fund's costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

**Prospectus** — describes the mutual fund to prospective investors. Every mutual fund has a prospectus. The prospectus contains information about the mutual fund's costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker can also provide you with a copy.

**Risks** — a list of all risks associated with the strategies, products and methodology we offer are listed below:

1. Alternative Investment Risk

Investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices
- Lack of liquidity in that there may be no secondary market for the fund and none expected to develop
- Volatility of returns
- Restrictions on transferring interests in the fund
- Absence of information regarding valuations and pricing

- Delays in tax reporting
- Less regulation and higher fees than mutual funds

## 2. Bond Fund Risk

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields of the risks associated with bond funds include:

- Call Risk - The possibility that falling interest rates will cause a bond issuer to redeem—or call—its high-yielding bond before the bond's maturity date.
- Credit Risk — the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.
- Interest Rate Risk — the risk that the market value of the bonds will go down when interest rates go up. Because of this, you can lose money in any bond fund, including those that invest only in insured bonds or Treasury bonds.
- Prepayment Risk — the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or "retire") its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

## 3. Fundamental Analysis Risk

Fundamental analysis, when used in isolation, has a number of risks:

- There are an infinite number of factors that can affect the earnings of a company, and its stock price, over time. These can include economic, political and social factors, in addition to the various company statistics.
- When using this method with mutual funds, the funds are composed of many companies and not all of them will be undervalued
- The data used may be at least six months out of date.
- It is difficult to give appropriate weightings to the factors.
- In the early 1970s and 1980s price/earnings multiples of 80 or 90 were considered acceptable by some for 'blue chip' stocks in the United States.
- In the 1980s in the United States some biotechnology stocks sold at '50 times sales'. The companies had no earnings and paid no dividend. The new yardstick to value these became 'products in the pipeline'. By the late 1980s most had lost three-quarters of their stock price.
- It assumes that the analyst is competent.
- A fundamental analyst assumes that other fundamental analysts will form the same view about the company and buy the stock, thus restoring its value and returning the trader or investor a capital gain. In practice, an undervalued company's stock price can stay at approximately the same level (or decline) for years.

- It ignores the influence of random events such as oil spills, product defects being exposed, and acts of God and so on.
- It assumes that there is no monopolistic power over markets.
- Even when fundamental analysis reveals an undervalued company, or a stock with high growth prospects, it does not tell us anything about the timing of the purchase of the stock. In other words, we may have discovered a grossly undervalued stock whose price has been falling for some time, and may well continue falling.

#### 4. Insurance Product Risk

The rate of return on variable insurance products is not stable, but varies with the stock, bond and money market subaccounts that you choose as investment options. There is no guarantee that you will earn any return on your investment and there is a risk that you will lose money. Before you consider purchasing a variable product, make sure you fully understand all of its terms. Carefully read the prospectus. Some of the major risks include:

- Liquidity and Early Withdrawal Risk – There may be a surrender charges for withdrawals within a specified period, which can be as long as six to eight years. Any withdrawals before a client reaches the age of 59 ½ are generally subject to a 10 percent income tax penalty in addition to any gain being taxed as ordinary income.
- Sales and Surrender Charges –Asset-based sales charges or surrender charges. These charges normally decline and eventually are eliminated the longer you hold your shares. For example, a surrender charge could start at 7 percent in the first year and decline by 1 percent per year until it reaches zero.
- Fees and Expenses – There are a variety of fees and expenses which can reach 2% and more such as:
  - Mortality and expense risk charges
  - Administrative fees
  - Underlying fund expenses
  - Charges for any special features or riders
- Bonus Credits – Some products offer bonus credits that can add a specified percentage to the amount invested ranging from 1 percent to 5 percent for each premium payment. Bonus credits, however, are usually not free. In order to fund them, insurance companies typically impose high mortality and expense charges and lengthy surrender charge periods.
- Guarantees - Insurance companies provide a number of specific guarantees. For example, they may guarantee a death benefit or an annuity payout option that can provide income for life. These guarantees are only as good as the insurance company that gives them.
- Market Risk -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- Principal Risk – The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

## 5. Mutual Funds Risk

Mutual funds can offer the advantages of diversification and professional management. But, as with other investment choices, investing in mutual funds involves risk and fees and taxes will diminish a fund's returns.

But mutual funds also have features that some clients might view as disadvantages, such as:

- **Costs despite Negative Returns** — Clients must pay sales charges, annual fees, and other expenses) regardless of how the fund performs. And, depending on the timing of their investment, clients may also have to pay taxes on any capital gains distribution they receive — even if the fund went on to perform poorly after they bought shares.
- **Lack of Control** — Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.
- **Price Uncertainty** — with an individual stock, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling your advisor. You can also monitor how a stock's price changes from hour to hour. But with a mutual fund, the price you purchase or redeem shares for will typically depend on the fund's NAV, which the fund might not calculate until many hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

The following is a list of some general risks associated with investing in mutual funds.

- **Country Risk** - The possibility that political events (a war, national elections), financial problems (rising inflation, government default), or natural disasters (an earthquake, a poor harvest) will weaken a country's economy and cause investments in that country to decline.
- **Currency Risk** -The possibility that returns could be reduced for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Also called exchange-rate risk.
- **Income Risk** - The possibility that a fixed-income fund's dividends will decline as a result of falling overall interest rates.
- **Industry Risk** - The possibility that a group of stocks in a single industry will decline in price due to developments in that industry.
- **Inflation Risk** - The possibility that increases in the cost of living will reduce or eliminate a fund's real inflation-adjusted returns.
- **Manager Risk** -The possibility that an actively managed mutual fund's investment adviser will fail to execute the fund's investment strategy effectively resulting in the failure of stated objectives.
- **Market Risk** -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.

- Principal Risk -The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

## 6. Overall Fund Risk

- Clients need to remember that past performance is no guarantee of future results. All funds carry some level of risk. You may lose some or all of the money you invest, including your principal, because the securities held by a fund goes up and down in value. Dividend or interest payments may also fluctuate, or stop completely, as market conditions change.
- Before you invest, be sure to read a fund's prospectus and shareholder reports to learn about its investment strategy and the potential risks. Funds with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your financial goals.

While past performance does not necessarily predict future returns, it can tell you how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the higher the investment risk. If you'll need your money to meet a financial goal in the near-term, you probably can't afford the risk of investing in a fund with a volatile history because you will not have enough time to ride out any declines in the stock market.

## 7. Stock Fund Risk

Although a stock fund's value can rise and fall quickly over the short term, historically stocks have performed better over the long term than other types of investments — including corporate bonds, government bonds, and treasury securities.

Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons, such as the overall strength of the economy or demand for particular products or services.

Not all stock funds are the same. For example:

- Growth funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains.
- Income funds invest in stocks that pay regular dividends.
- Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Index, by investing in all — or perhaps a representative sample — of the companies included in an index.
- Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks.

## 8. Technical Analysis risk

- Technical analysis is derived from the study of market participant behavior and its efficacy is a matter of controversy.
- Methods vary greatly and can be highly subjective; different technical analysts can sometimes make contradictory predictions from the same data.

- Models and rules can incur sufficiently high transaction costs.

**Risk Tolerance**— the extent to which an investor is willing to accept more risk in exchange for the possibility of a higher return. An investor with a high risk tolerance is likely to invest in securities, such as stocks in startup companies, and is willing to accept the possibility that the value of his/her portfolio will decline, at least in the short-term. An investor with a low risk tolerance, on the other hand, tends to invest predominantly in stable stocks and/or highly-graded bonds. One's risk tolerance is subjective and may vary according to age, needs, goals, and even personal dispositions

**Third Party Money Manager**—the professional management of various securities (shares, bonds and other securities) and assets (e.g., real estate), to meet specified investment goals for the benefit of the investors. The managers are not the actual advisers working with the investor. Investors may be institutions (insurance companies, pension funds, corporations, individuals etc.

**Total Annual Fund Operating Expense** — the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. You'll find the total in the fund's fee table in the prospectus.

**Unit Investment Trust (UIT)** — a type of investment company that typically makes a one-time "public offering" of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

**You** — the client