



Richey Advisors, Inc.  
*A Registered Investment Advisor*

## **Richey Advisors, Inc.**

110 E. Wilshire Street  
Suite 307

Fullerton, CA 92832

(714) 449-9696

[www.richeyadvisors.com](http://www.richeyadvisors.com)

## **Form ADV, Part 2A Brochure**

May 27, 2011

This brochure provides information about the qualifications and business practices of Richey Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (714) 449-9696 or [info@richeyadvisors.com](mailto:info@richeyadvisors.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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Richey Advisors, Inc. or any person associated with Richey Advisors, Inc. has achieved a certain level of skill or training.

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

## ITEM 2 - MATERIAL CHANGES

The purpose of this page is to inform you of any material changes since the previous version of this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

*This brochure is a new document prepared according to the SEC's new requirements and rules. Therefore, this document is materially different in structure and requires certain new information that our previous brochure did not require. In the future, this item will discuss only specific material changes that we make to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.*

Richey Advisors, Inc. ("RAI") reviews and updates our brochure at least annually to make sure that it remains current.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

Richey Advisors, Inc. (“RAI,” “we,” “our,” or “us”) is a privately owned corporation headquartered in Fullerton, CA. J. Hugh Richey founded RAI in 1985 and registered as an investment adviser with the State of California in 1992. RAI transitioned its registration from California to the U.S. Securities and Exchange Commission in 2006.

### Advisory Services Offered

RAI offers the following services to advisory clients:

#### Investment Management Services

RAI offers advice to clients regarding asset allocation and the selection of mutual funds. We will provide an analysis of a client’s financial and investment affairs and will tailor fund selections to suit the needs and objectives of each client. We will also address potential areas of opportunity and seek to clarify economic and tax implication problems with respect to a client’s financial circumstances in conjunction with the client’s tax and/or legal advisors, when appropriate. RAI invests client accounts on a fully discretionary basis, limited only by the client’s individual needs and any restrictions imposed on the account.

RAI may also occasionally utilize additional types of investments, including exchange-traded funds (ETF) if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. RAI may offer investment advice on any investment held by the client at the start of the advisory relationship. We describe the material investment risks for the securities that we utilize under the heading **Specific Security Risks** in **Item 8** below. We discuss our discretionary authority below under **Item 16 - Investment Discretion**. For more information about the restrictions clients can put on their accounts, see **Tailored Services and Client Imposed Restrictions** in this item below.

#### Financial Planning Services

RAI may offer financial planning services to our clients in the following areas:

- Institutional & Retail Investing
- Asset Management
- Investment Planning
- Estate Planning
- Retirement Planning
- Educational Seminars
- Life, Health, & Long-Term Care Insurance
- Asset Allocation & Risk Analysis

Financial plans typically include a written summary of the client's goals and objectives, current financial statements, and personal financial recommendations. We do not generally provide comprehensive financial planning services. Further, these services, when performed, do not include preparation of any kind of income tax, gift, or estate tax returns nor preparation of any legal documents, including wills or trusts.

### *Employer-Sponsored Retirement Plan Services*

Employer-sponsored retirement plan services may include assistance with identifying the plan's needs and objectives, selecting and/or evaluating the team of service providers to the plan, and preparing an investment policy statement and investment guidelines for the plan.

Furthermore, we offer to provide the following ongoing investment services to employer-sponsored retirement plan clients:

1. Discretionary investment services for our model allocations;
2. Non-discretionary investment selection and monitoring, subject to the range of options made available through the plan's selected account custodian;
  - a. RAI provides the analysis and the plan sponsor approves the final selection of funds
3. Design and management of risk-adjusted model allocations on a discretionary basis
4. Periodic reports of an analysis of the plan's investments;
5. Assisting the plan with conducting and/or coordinating investment education and enrollment meetings for plan participants; and
6. Annual plan reviews to discuss the ongoing reasonableness of the plan costs, service providers, and plan's investment policy statement.

For plans in excess of \$20 million, Richey Advisors, Inc. may recommend the professional services of SEI Investments Developments, Inc., provider of the SEI Advisor Network service ("SEI") or other plan providers if deemed to be in the best interest of the client See ***Referral Fees*** under ***Item 14*** below.

### *Consulting Services*

We are available to answer questions or address questions a client may have relative to their financial and investment needs. Clients may schedule an appointment for a private consultation to discuss those questions, which directly affect their financial circumstances. We hold all information in strict confidence.

We describe the fees charged for all of our services under ***Item 5 - Fees and Compensation***, below.



## Limitations on Investments

In some circumstances, RAI's advice may be limited to certain types of securities as follows:

### *Limitation by Issuer*

In the event RAI is managing assets within an annuity, RAI is limited to those investment options made available by the insurance company.

### *Limitation by Type of Security*

#### Limitation on Equities

For managed accounts, RAI does not invest in individual equity securities. However, we do hold individual positions as an accommodation to clients who have transferred existing individual equity securities into an account managed by RAI.

For non-managed accounts RAI does not monitor or provide advice pertaining to any client-directed position held as an accommodation. RAI will only transact in individual equities at the client's request.

#### Limitation on Fixed Income

For managed accounts, RAI utilizes debt-related mutual funds and ETFs only. However, we do hold individual positions as an accommodation to clients who have transferred existing fixed-income securities into an account managed by RAI.

For non-managed accounts, RAI does not monitor or provide advice pertaining to any client directed positions held as an accommodation. RAI will only transact in individual fixed-income securities at the client's request.

### *Mutual Fund Limitations*

#### No Load Mutual Funds

RAI generally limits mutual fund selections to no load funds or load-waived equivalents.

### *Limitation by Custodian*

#### Choice of Funds

For clients with accounts held at certain custodians, RAI is limited to the mutual funds available through the custodian. The custodians we recommend to clients include TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), and SEI Investments Distribution Co., ("SEI") registered broker-dealers, and SIPC members.

#### Rebalancing

RAI generally rebalances client portfolios on a quarterly basis at our discretion. However, we are limited to trade amounts of \$250 or greater for all qualified accounts and \$500 for all non-qualified accounts held at TD Ameritrade. This means that smaller accounts may not receive the same frequency of

portfolio rebalancing. We describe the rebalancing process in detail under ***Methods of Analysis and Investment Strategies*** in ***Item 8***, below.

#### *Limitation by Client*

RAI may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

#### *Non-Managed Assets*

RAI may offer securities trading and inventory activities for cash and securities in a client's non-managed account, acting as an intermediary between the client and the custodian of the non-managed account. We generally do not provide investment advice regarding a client's non-managed assets or provide opinions as to the merits of any securities in non-managed accounts. RAI does not maintain regular trading hours nor do they have representatives available to take trading instructions in a timely manner. We also do not make any judgments as to the appropriateness of assumed risk or suitability of any non-managed investment given the client's situation. RAI offers this service at our discretion, in consideration of the client's other accounts that we manage.

An exception to the above may be made when a client requests that RAI make recommendations for assets held within a non-managed account. In these instances, RAI will charge our normal annual management fee on that portion of the account. We describe an annual maintenance fee charged to non-managed accounts in ***Item 5 - Fees and Compensation***, below.

### **Tailored Services and Client Imposed Restrictions**

RAI manages client accounts based on the investment strategy that is deemed most appropriate based upon the clients stated risk tolerance and objectives, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. RAI applies the selected strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, risk tolerance, and tax ramifications. Our investment selections may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep RAI informed of any material changes to their investment objectives or restrictions.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want RAI to buy or sell certain specific securities or security types in the account. RAI reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

### **Assets Under Management**

RAI manages client assets in accounts on a continuous and regular basis. As of March 31, 2011, the total amount of assets under our management was \$66,575,920.

## ITEM 5 - FEES AND COMPENSATION

### Fee Schedule

#### Investment Management Services

RAI will charge an annual asset management fee for advice, monitoring, and quarterly status updates based on a percentage of the market value of the portfolio, per the following schedule:

<u>Account Value</u>	<u>Annual Rate</u>
The First \$50,000	1.25%
The Next \$50,000	1.20%
The Next \$150,000	1.00%
The Next \$250,000	0.75%
The Next \$500,000	0.65%
\$1.0 Million and Above	0.55%

Our fees may occasionally fall outside the above schedule, based on the scope and complexity of services required. All fees are negotiable under certain conditions such as when total household assets exceed \$1,000,000. At our discretion, we may waive management fees for our personal and family accounts. Some accounts may be under different fee schedules honoring prior agreements. We make pro-rata adjustments for additions or withdrawals greater than \$25,000 during a quarter. The client's quarterly fee calculation will reflect any pro-rated additions and/or reductions.

All new accounts will be charged a one-time setup fee and all accounts will be charged an annual account maintenance fee for each account. Neither of these fees will exceed \$100 depending upon the size of the account, number of securities deposited and the total value of all household accounts. The account set-up fee will be collected upon confirmation that the account has been funded at the selected account custodian. One fourth of the annual maintenance fee will be collected with each quarterly account billing in arrears

RAI's advisory fees are payable quarterly in arrears based on the account market value on the last day of the calendar quarter. The first payment is due after the first quarter under management. The formula used for the calculation is as follows:  $(Annual\ Rate) \times (Total\ Assets\ Under\ Management\ at\ Quarter-End) / 4$ . For advisory fee calculation purposes, a calendar quarter is a period beginning on January 1, April 1, July 1, or October 1 and ending on the day before the next quarter. A day is any calendar day including weekends and holidays. For new accounts, the number of days remaining in the quarter is the number of calendar days following the date a new account is funded.

With client authorization, RAI will automatically withdraw RAI's advisory fee from client accounts held at TD Ameritrade. Typically, TD Ameritrade withdraws advisory fees from the client's account during the first month of each quarter based on our instruction. SEI generally calculates and debits our fee for all client accounts managed under the SEI platform.

All clients will receive brokerage statements from their custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee.

The account custodian will send a monthly or quarterly statement to each client who authorizes RAI to withdrawal fees directly from their account. Statements from SEI will show the amount of the fee, the value of the client's assets upon which we based the fee, and the specific manner in which we calculated the fee. Clients who hold accounts with TD Ameritrade will receive an account billing statement with each quarterly performance report issued by RAI. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Either party may terminate the agreement upon thirty (30) days written notice to the other party. The client may terminate the agreement by writing to RAI at our office. Upon termination of the agreement, any earned, unpaid advisory fees will be due and payable. The client will receive an invoice showing the advisory fees due for services rendered and not yet paid.

### *Financial Planning Services*

RAI will base the financial planning fee on an hourly rate of \$200. Total fees will be based on an estimate of total hours needed according to the nature and complexity of the plan. We impose a minimum fee of \$500 for any financial plan and both parties will agree to our fees in advance of RAI providing any services. Discounts may be appropriate where the assets are very substantial and/or the amount of incremental work necessary to manage such assets is minimal. A non-refundable fee of \$250 to \$500 may be required in advance depending upon the complexity and hours required in gathering data required to complete a plan.

Plan fees are due upon completion of the plan. RAI considers the planning phase of our services to be complete, and the agreement terminated upon delivery of a financial planning project. In the event that either the client or RAI wishes to terminate the financial planning agreement before completion of the plan, either party may terminate the agreement at any time by providing written notice to the other party. The client may terminate the agreement at any time by writing RAI at our office. Upon notice of termination, RAI will provide the client with an invoice for services provided through the date of termination.

### *Employer-Sponsored Retirement Plan Services*

For plans in excess of \$1,000,000 under RAI's management, we charge a negotiable management fee based on the eligible plan assets, as defined in the client agreement. Generally, employer-sponsored retirement plan management fees will range between 0.20% and 1.00% annually, based on the nature and complexity of the investments and services provided and will be set forth in the advisory agreement. Fees are debited directly from the plan on a quarterly basis in arrears. Partial quarters are pro-rated for the number of days assets were under management. Plans under \$1,000,000 are subject to the ***Investment Management Services*** fee schedule, in this item above.

RAI will send a statement of fees charged to the plan sponsor. The statement will show the amount of the fee, the value of the plan assets upon which we based the fee, and the specific manner in which we calculated the fee. It is the plan administrator's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Either party may terminate the agreement upon thirty (30) days written notice to the other party. The client may terminate the agreement by writing to RAI at our office. Upon termination of the agreement, any earned, unpaid advisory fees will be due and payable. The client will receive an invoice showing the advisory fees due for services rendered and not yet paid.

### *Consulting Services*

RAI charges \$200 per hour for consultation time with a planner. The minimum charge for consultation time is one hour (\$200). Generally, we do not charge for the initial meeting. The entire fee is due upon the rendering of consulting services.

RAI considers the consulting services to be complete, and the agreement terminated upon delivery of the agreed upon services. In the event that either the client or RAI wishes to terminate the consulting agreement before completion of the services, either party may terminate the agreement at any time by providing written notice to the other party. The client may terminate the agreement at any time by writing RAI at our office. Upon notice of termination, RAI will provide the client with an invoice for services provided through the date of termination.

### *Administration Fees*

If a client requires extraordinary or unusual services, such as computer and/or administration time beyond scheduled consultation time or for financial planning, RAI will charge an additional rate of \$65.00 per hour plus out-of-pocket costs (i.e. photocopies, postage, supplies, etc.) We deduct these non-refundable administrative expense fees directly from the client's account(s), upon rendering of services.

### *Non-Managed Account Fees*

Richey Advisors, Inc. charges each non-managed account a one-time account set-up fee and an annual maintenance fee, each of up to \$100, depending upon the size of the account and the level of services provided to the client. We may waive these fees at our discretion.

Lower fees may be available from other sources for services comparable to any or all of the above services we offer.

## **Other Fees and Expenses**

RAI's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. RAI will bill the client's account for any incidental expenses incurred, such as postage,

photocopies, overnight delivery expenses, and clerical expenses. These charges are in addition to the fees client pays to RAI. See **Item 12 - Brokerage Practices** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to 12b-1 fees, early redemption fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to RAI for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares.

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

RAI does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **ITEM 7 - TYPES OF CLIENTS**

RAI provides discretionary investment advisory and financial planning services to individuals, high net worth individuals, and trusts and estates. In addition, we offer advisory services to employer-sponsored retirement plans, charitable organizations/endowments, and businesses.

### **Account Requirements**

RAI will recommend either TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), and SEI Investments Distribution Co., ("SEI") for custodial/brokerage of client accounts. SEI imposes a minimum account size of \$50,000 and may aggregate family accounts to meet the minimum requirement. For accounts under \$50,000, SEI charges clients a \$15 quarterly account maintenance fee. TD Ameritrade does not have account minimums or account maintenance fees. We generally do not recommend that clients with less than \$250,000 custody their assets with SEI in order to avoid the quarterly custodial fees. However, clients may still choose SEI for smaller accounts at their own discretion.

RAI's management fee to the client does not depend on the custodial broker selected. However, we must perform all trading functions for accounts held at TDA, and SEI performs all trading functions for accounts held at SEI resulting in an administrative savings to us. This presents a potential conflict, giving us an incentive to recommend the custodial services of SEI Investments.

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

### **Methods of Analysis and Investment Strategies**

RAI establishes an investment and asset allocation policy for client investment portfolios after assessing the client's desire for income or capital appreciation, tax status, risk tolerance, and liquidity requirements. We will implement a client's investment and asset allocation policy either through the direct selection and trading of mutual funds for the client's account or through third-party asset

allocation mutual fund portfolios. We monitor the results and make adjustments as needed. As the initial assumptions change, the plans themselves may need to be modified. Continuous portfolio management is important in an effort to keep the client's portfolio consistent with the client's objectives.

Each portfolio has a target asset allocation. Generally, RAI reviews each portfolio at least quarterly to evaluate the actual allocation as compared to the target allocation. Where the variance is considered excessive in accounts held at TD Ameritrade (as defined by the client's Investment Policy Statement), RAI takes appropriate actions (buys and sells) in order to bring the actual allocation within acceptable range of the target allocation. We refer to this process as "re-balancing." Since we believe that all investments are subject to cycles, this process of re-balancing offers a systematic process to help us sell when investment categories have been in favor and to buy when they have been out of favor. For accounts held at SEI, SEI automatically rebalances client accounts at 90-day intervals if there is a 2% or greater variance.

### *Methods of Analysis for Selecting Securities*

RAI may use fundamental, cyclical, charting, and/or technical analysis in the selection of individual mutual funds. Additionally, RAI may use specific strategies or resources in the method of analysis and selection of mutual funds.

#### *Fundamental Analysis*

RAI uses fundamental analysis in the selection of mutual funds, including the analysis of fund managers, annual reports, and any competitive advantages. Additionally, in analyzing and selecting mutual funds, we use public and private research sources, fund reporting, and fund conference calls. We review key characteristics including historical performance, consistency of returns, risk level, and size of fund. Expense ratio and other costs are also significant factors in fund selection. RAI may also consider cyclical conditions, which is an analysis of business cycles to find favorable conditions for buying and/or selling a security.

#### *Cyclical Analysis*

RAI may utilize cyclical analysis that involves analysis of business cycles to find favorable conditions for buying and/or selling a security.

#### *Charting Analysis*

RAI may utilize charting analysis that involves the use of patterns in performance charts in an effort to predict favorable conditions for buying and/or selling a security.

#### *Technical Analysis*

The effectiveness of technical analysis depends upon the accurate forecasting of major price moves or trends in the securities traded by RAI. However, there is no assurance of accurate forecasts or that trends will develop in the markets we follow. In the past, there have been periods without discernable trends and similar periods will presumably occur in the future. Even where major trends develop, outside factors like government intervention could potentially shorten them.

Furthermore, one limitation of technical analysis is that it requires price movement data, which can translate into price trends sufficient to dictate a market entry or exit decision. In a trendless or erratic market, a technical method may fail to identify trends requiring action. In addition, technical methods may overreact to minor price movements, establishing positions contrary to overall price trends, which may result in losses. Finally, a technical trading method may under perform other trading methods when fundamental factors dominate price moves within a given market.

### *Mutual Funds*

In analyzing mutual funds, RAI uses various sources of information. We review key characteristics such as historical performance, consistency of returns, risk level, and size of fund.

### *Specific Investment Strategies for Managing Portfolios*

RAI may use Modern Portfolio Theory, long-term holding, dollar-cost-averaging, defensive, inverse/enhanced market, and/or concentrated portfolio strategies in the construction and management of client portfolios.

### *MPT*

RAI uses the Modern Portfolio Theory, which has a basic concept of using diversification in an effort to help minimize the risk and optimize the potential return of a portfolio.

### *Long-term Holding*

RAI's strategy consists of purchasing, holding, and rebalancing a diversified portfolio of mutual fund securities. RAI typically intends to hold these investments for the long term except when sales are necessary to rebalance the portfolio or when we determine that an existing fund should be replaced. When selecting funds, RAI may focus on the potential for income and/or growth, depending on the client's investment objectives. RAI does not attempt to time short-term market swings.

### *Dollar-Cost-Averaging*

Dollar cost averaging involves investing money in multiple installments over several months, to take advantage of price fluctuations in the attempt to get a lower average cost per share.

### *Defensive Strategies*

If RAI anticipates poor near-term prospects for equity markets, we may adopt a defensive strategy for clients' accounts by investing substantially in fixed income, money market, and/or index funds. Further, SEI and TDA have varying policies on when to move accounts to cash or short-term fixed income investments in volatile markets. Clients should discuss any concerns pertaining to cash account limitations with RAI and/or their custodian.

### *Inverse/Enhanced Market*

RAI may also use leveraged long and short mutual funds and/or exchange traded funds that are designed to perform in either an:



1. Inverse relationship to certain market indices (at a rate of one or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; or
2. Enhanced relationship to certain market indices (at a rate of one or more times the actual result of the corresponding index) as an investment strategy and/or in an effort to increase gains in an advancing market.

### *Concentrated Portfolios*

For smaller accounts, RAI may invest in a very limited number of securities. Clients should consider the fact that the risk of a very concentrated portfolio with limited diversification increases the possibility of substantial losses and depreciation of the portfolio in the event of an exogenous event, the concentrated stock or sector does not perform as expected, and/ or deteriorating economic or market circumstances domestically and/or internationally.

### *Additional Strategies*

RAI may also utilize mutual funds and/or ETFs that use additional strategies in their management of the funds or accounts. Clients interested in learning more about additional strategies should contact us for more information and/or refer to the prospectus of any mutual fund.

## **Investing Involves Risk**

Prior to entering into an agreement with RAI, the client should carefully consider:

1. That investing in securities involves risk of loss which clients should be prepared to bear;
2. That securities markets experience varying degrees of volatility;
3. That over time the client's assets may fluctuate and at anytime be worth more or less than the amount invested; and
4. That clients should only commit assets that they feel are available for investment on a long-term basis.

## **Specific Security Risks**

### *General Risks of Owning Securities*

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of mutual funds in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### Mutual Funds (Open-end Investment Company)

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase.

The benefits of investing through mutual funds include:

#### Professionally Managed

Mutual funds are professionally managed by investment advisers who research, select, and monitor the performance of the securities the fund purchases.

#### Diversification

Mutual funds typically have the benefit of diversification, which is an investing strategy that generally sums up as "Don't put all your eggs in one basket." Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

#### Affordability

Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

#### Liquidity

At any time, mutual fund investors can readily redeem their shares at the current NAV, less any fees and charges assessed on redemption.

Mutual funds also have features that some investors might view as disadvantages:

#### Costs Despite Negative Returns

Investors must pay annual fees and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing 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, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast,

with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

### *Different Types of Funds*

When it comes to investing in mutual funds, investors have literally thousands of choices. Most mutual funds fall into one of three main categories; money market funds, bond funds (also called "fixed income" funds), and stock funds (also called "equity" funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

#### *Money Market Funds*

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, short-term investments issued by the U.S. Government, U.S. and foreign corporations, state and local governments, and bank issued certificates of deposit. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds.

#### *Bond Funds*

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

#### *TIPS Funds*

Treasury Inflation Protected Securities (TIPS) are inflation-indexed securities structured to remove inflation risk.

Some of the risks associated with bond funds include:

#### *Credit Risk*

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these 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*

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

### Prepayment Risk

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to “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.

### *Stock Funds*

A stock fund’s value can rise and fall quickly (and dramatically) over the short term but may demonstrate more stability over the long-term. 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

Growth funds focus on stocks that may or may not pay a regular dividend but have the potential for large capital gains. These funds favor companies expected to grow earnings, which could result in stock prices rising faster than the economy, and may be smaller and less seasoned companies. The smaller and less seasoned companies that may be in a growth fund have a greater risk of price volatility. Growth stocks, which can be priced on future expectations rather than current results, may decline substantially when expectations are not met or general market conditions weaken.

#### Equity Income Funds

Equity income funds stress current income over growth, and may invest in stocks that pay regular dividends. These funds are subject to dividend payout risk, which is the possibility that a number of the companies in which the fund invests will reduce or eliminate the dividend on the securities held by the fund.

#### Small Cap Funds

Funds that invest in stocks of small companies involve additional risks. Smaller companies typically have higher risk of failure, and are not as established as larger blue chip companies are. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

#### Mid Cap Funds

Funds that invest in companies with mid-range market capitalizations involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

#### Index Funds

Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all—or perhaps a representative sample—of the companies included in an index.

## International Funds

International investments are subject to additional risks, including currency fluctuation, political instability, and potential illiquid markets.

## Emerging Market Funds

Funds that invest in foreign securities of smaller, less-developed countries involve special additional risks. These risks include, but are not limited to currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

## Sector Funds

Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks. Funds that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risk. For example, products of companies that technology funds invest in may be subject to severe competition and rapid obsolescence.

## REIT Funds

REIT Funds include REITs within the underlying fund holdings. REITs primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development, and/or long-term mortgage loans. REIT investments include illiquidity and interest rate risk.

## *Real Estate Funds*

Investments in real estate funds are subject to the risks related to direct investment in real estate, such as real estate risk, regulatory risks, concentration risk, and diversification risk.

## *Absolute Return Funds*

This measure looks at the appreciation or depreciation (expressed as a percentage) that a fund achieves over a given period. Absolute return differs from relative return because it is concerned with the return of a particular asset and does not compare it to any other measure or benchmark. In general, a mutual fund seeks to produce returns that are better than its peers, its fund category, and/or the market as a whole. This type of fund management is referred to as a relative return approach to fund investing. As an investment vehicle, an absolute return fund seeks to make positive returns by employing investment management techniques that differ from traditional funds, such as short selling, futures, options, derivatives, arbitrage, leverage, and unconventional assets.

## *Alternative Investment Funds*

Alternative investments fall outside the three traditional asset types (stocks, bonds, and cash).

Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts. Alternative investments funds are favored mainly because their returns have a low correlation with those of standard asset classes. Because of this, many large institutional funds such as pensions and private endowments have begun to allocate a small portion of their portfolios to alternative investments such as hedge funds. Each fund is subject to specific risks, depending on the nature of the fund. These types of investments may have additional or enhanced risks.

### *Tax Consequences of Mutual Funds*

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that cannot be offset by a loss.

### *Exchange-Traded Funds (ETFs)*

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve returns similar to a particular market index, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector. ETFs traditionally have been index funds, but in 2008, the U.S. Securities and Exchange Commission began to authorize the creation of actively managed ETFs.

### *Investing Outside the U.S.*

Although we limit foreign investments to mutual funds and ETFs that hold foreign securities, the risks of foreign investing still apply to the underlying portfolios of funds. Investing outside the United States may involve additional risks of foreign investing. These risks may include currency controls and fluctuating currency values, and different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices. Additional factors may include changing local, regional, and global economic, political, and social conditions. Further, expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs can be contributors. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends can also lead to additional risk.

### *Cash and Cash Equivalents*

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

## **Financial Planning**

The financial planning tools RAI uses to create financial plans for clients rely on various assumptions, such as estimates of inflation, risk, economic conditions, and rates of return on security asset classes. All

return assumptions use asset class returns, not returns of actual investments, and do not include fees or expenses that clients would pay if they invested in specific products.

We cannot guarantee that clients will achieve the results shown in a financial plan. Results will vary based on the information provided by the client regarding the client's assets, risk tolerance, and personal information. Changes to underlying assumptions or differences in actual personal, economic, or market outcomes may result in materially different results for the client. Clients should carefully consider the assumptions and limitations of the financial planning process and should discuss the results of the plan with a qualified investment professional before making any changes in their investment or financial planning program.

If the financial plan includes recommendations for investing in securities, you should understand that investing in securities involves risk of loss, and you should be prepared to bear that risk.

## **ITEM 9 - DISCIPLINARY INFORMATION**

RAI and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. RAI does not have any disciplinary information to disclose.

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

### **Affiliated Broker-Dealer and Insurance Agencies**

J. Hugh Richey is President and owns 100% of Richey Financial Group, Inc. ("RFG"), a broker-dealer registered with the U.S. Securities and Exchange Commission and a Financial Industry Regulatory Authority ("FINRA") member, and California licensed insurance agency (License# 0790505). In addition, some persons associated with RAI are Registered Representatives/Registered Principals licensed with RFG and/or licensed insurance agents registered with RFG. In addition, insurance transactions of associated persons other than J. Hugh Richey may be conducted through unaffiliated, outside insurance agencies

In their capacities as registered representatives and insurance agents/brokers, the associates of RAI may recommend securities, insurance, or other products to the firm's clients. Consequently, these associated persons may receive commissions for products they sell. Therefore, a conflict of interest exists between the interests of these individuals and those of the advisory clients because these individuals may have an incentive to recommend products and services based on the additional compensation they receive. However, clients are under no obligation to act upon any recommendations of these individuals or effect any transactions through them if they decide to follow their recommendations.

RAI and RFG share the same principal place of business. RAI does not conduct any investment advisory client securities brokerage transactions through RFG and never earns commissions or shares in the transaction fees that client custodian/broker-dealers charge clients relating to securities trading in RAI advisory accounts.

RAI's Associated Persons currently devote 0% of their time to commission securities brokerage business and approximately 3-5% to insurance business.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

RAI believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. RAI's personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

RAI's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. RAI's personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions of insider trading, and adherence to applicable state and federal securities laws. Additionally, individuals who formulate investment advice for clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities are subject to personal trading policies governed by the Code of Ethics (see below).

RAI will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

#### **Personal Trading Practices**

RAI's personnel are subject to personal trading policies governed by the Code of Ethics. RAI and our personnel may invest in securities that we also recommend to clients. Securities transactions on behalf of clients consist of mutual funds, which do not trade but are issued and redeemed once daily at the fund's net asset value ("NAV"). Therefore, we believe that personal transactions in mutual funds do not present a conflict of interest to our clients. The Code of Ethics includes additional restrictions for our personnel in the rare event that we make non-mutual fund purchases or sales in our personal accounts.

### **Participation or Interest in Client Transactions**

The following items represent situations where a conflict of interest may exist between the client and RAI and our personnel.

#### **General Partner**

In June of 1986, J. Hugh Richey became managing Joint Venturer of the Temescal Joint Venture, which sponsored Temescal Partners, Ltd. for the purpose of acquiring various contiguous tracts of land for investment and development know as Temescal Village Shopping Center. The Partnership continues to hold the property for income and capital appreciation. It is closed to new investments. The partnership provides annual audited statements to all partners, to include RAI clients invested in the partnership.



J. Hugh Richey is the 100% shareholder of Temescal Funding, Inc. Temescal Funding, Inc. is the general partner to Temescal Partnership Ltd.; a California limited partnership that previously invested in a single real estate investment property. We do not solicit RAI clients to invest in Temescal Partners, Ltd. However, if an existing partner wished to liquidate their partnership interest, J. Hugh Richey may assist in seeking a buyer, to include clients of RAI.

A conflict exists when RAI stands to benefit from additional investment in companies that we own. Further, the potential for conflict exists where RAI could seek to sell (or share the burden of) underperforming assets from proprietary holdings. If we solicit a client to purchase an existing partner's share at some future date, the client will receive the offering memorandum and full disclosure of known risks before investing. In addition, RAI will disclose any proprietary interest held in the partnership by a RAI principal or advisor representative to a potential buyer.

## ITEM 12 - BROKERAGE PRACTICES

### Factors Considered in Selecting Broker-Dealers for Client Transactions

RAI requires clients to open one or more accounts in their own name at TD Ameritrade Institutional; a division of TD Ameritrade, Inc. ("TD Ameritrade"), and/or SEI Investments Distribution Co., ("SEI") registered broker-dealers, Members SIPC. The client will enter into a separate agreement with TD Ameritrade/SEI to custody the assets. RAI also requires that clients grant us limited power of attorney to execute transactions when their accounts are custodied at TD Ameritrade. RAI is independently owned and operated, and unaffiliated with any broker-dealer/custodian. See also **Account Requirements** under **Item 7**, above, for additional custodian selection criteria.

RAI considers several factors in recommending a TD Ameritrade and/or SEI to a client. Factors that we may consider when recommending TD Ameritrade and/or SEI may include availability of funds, ease of use, reputation, service execution, pricing, and financial strength. RAI may also take into consideration the availability of the products and services received or offered (detailed below) by TD Ameritrade and/or SEI. On rare occasions, we may also refer clients to custodians other than TD Ameritrade and/or SEI if in our opinion, the choice would be in the client's best interest.

#### TD Ameritrade

RAI participates in TD Ameritrade's institutional customer program (the "Program") and may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice we give to clients, although we receive economic benefits through our participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount):

1. Receipt of duplicate client statements and confirmations;
2. Research related products and tools;
3. Consulting services;

4. Access to a trading desk serving RAI's participants;
5. Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts);
6. The ability to have advisory fees deducted directly from client accounts;
7. Access to an electronic communications network for client order entry and account information;
8. Access to mutual funds with no transaction fees and to certain institutional money managers; and
9. Discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third-party vendors

TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services that TD Ameritrade makes available to us through the program may benefit us but may not benefit our clients. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade.

There are additional services made available by TD Ameritrade that are intended to help us manage and further develop our business enterprise. The benefits we receive through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duty to clients, RAI will at all times put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by RAI or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the our choice of TD Ameritrade for custody and brokerage services.

For client accounts maintained in custody at TDA, TDA will not charge the client separately for custody. However, TDA will receive compensation from clients in the form of commission or other transaction-related compensation on securities trades executed through TDA or 12b-1 fees in the case of the purchase of non-transaction fee funds.

### SEI

Richey Advisors, Inc. may recommend SEI to clients for custody and brokerage services. SEI provides in-house research materials including economic outlooks and manager research to RAI. For client accounts custodied at SEI, SEI's operations handle all of the processing and maintenance of the accounts including:

1. Custody;
2. Comprehensive account-level reporting;
3. Trade processing;
4. Portfolio rebalancing (this is typically performed automatically by SEI but may also be overridden by RAI);
5. Transaction statements;
6. Fee calculations, deductions and payment;

7. Systematic withdrawals; and
8. Tax reporting

SEI also provides business technology and service offerings including:

1. Forms;
2. Client and firm-centric data;
3. Customizable marketing materials;
4. Online proposal systems and investment policy statements; and
5. Industry insights, best practices and growth strategies on business planning, market positioning, and growth strategies

For client accounts maintained in custody at SEI, SEI will not charge the client separately for custody (other than the quarterly account maintenance fee discussed above), but SEI is compensated by a share of the mutual fund managers' asset management fees which clients pay indirectly through the investment of their assets in mutual funds.

### *Directed Brokerage Transactions*

RAI will not allow clients to direct RAI to use a specific broker-dealer to execute transactions. Clients must use the broker-dealers that RAI recommends. Not all investment advisers require their clients to trade through specific brokerage firms. By requiring clients to use TD Ameritrade/SEI, RAI believes we may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio. In the event that a custodian other than TD Ameritrade or SEI holds client assets, there may be circumstances when RAI directs transactions through a broker/dealer other than the account custodian. However, this will only occur in our duty to seek best execution and when we believe it to be in the client's best interest.

### **Aggregation and Allocation of Transactions**

RAI enters transactions for each client independently and does not aggregate (combine) client orders. Aggregating trades may benefit clients by purchasing or selling in larger blocks in an attempt to take advantage of better pricing or lower trading costs. We do not feel that clients are at a disadvantage because we do not aggregate client orders. RAI primarily uses mutual funds to manage client accounts. Mutual funds are priced once daily. As the daily price is the same for each investor, we have no opportunity to obtain better pricing through aggregating even if we place trades of the same fund for multiple clients within a single order. Additionally, TD Ameritrade/SEI charges each account an individual transaction fee regardless of whether we aggregate or not. This prevents us from lowering trading costs through aggregation.

## ITEM 13 - REVIEW OF ACCOUNTS

### Managed Account Reviews

For accounts held at TD Ameritrade, RAI manages portfolios on a continuous basis and James P. Ripley, Vice President of Operations, and Chief Compliance Officer, generally reviews all positions in client accounts at least quarterly, rebalancing at our discretion. For accounts held at SEI, we monitor account performance and asset allocations and typically rely on SEI for rebalancing.

We offer account reviews to all clients on an annual basis, or more frequently upon a client's request. Clients may choose to receive reviews in person, by telephone, or e-mail. The advisor representative responsible for each client account conducts all reviews based on a variety of factors. These factors may include but are not limited to stated investment objectives, economic environment, outlook for the securities markets, and the merits of the securities in the accounts. James P. Ripley, Vice President of Operations, and Chief Compliance Officer, is also available to participate in client reviews.

In addition, we may conduct a special review of an account based on one or more of the following:

1. A change in the client's investment objectives, guidelines and/or financial situation;
2. Changes in diversification;
3. Tax considerations; or
4. Material cash deposits or withdrawals.

We do not generally offer reviews to financial planning-only clients. However, we will review financial plans at our standard hourly rate upon the client's request.

### Account Reporting

Each client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period. SEI provides quarterly reports to clients on accounts over \$50,000 reflecting performance of the accounts gross of our management fees. RAI typically provides reports to clients quarterly for accounts custodied at TD Ameritrade and for accounts under \$50,000 custodied at SEI. These reports generally reflect the holdings, transactions, and performance of the account net of management fees. The performance calculations and reports that we provide are prepared on a trade date basis, and account statements from custodians generally reflect settlement date.

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

### TD Ameritrade/SEI Support Products and Services

We receive an economic benefit from TD Ameritrade/SEI in the form of the support products and services they make available to us and other independent investment advisors whose clients maintain their accounts at TD Ameritrade/SEI. These products and services, how they benefit us, and the related conflicts of interest are described above (see *Item 12 – Brokerage Practices*). We do not base particular

investment advice, such as buying particular securities for our clients, on the availability of TD Ameritrade/SEI's products and services to us.

### Referral Fees

When RAI refers a potential client to another registered investment adviser, we receive a portion of the investment advisory fees the client pays to the other adviser. RAI receives a percentage of the advisory fee the client pays for as long as the client continues to work with the other adviser. However, this does not increase the total fees paid by the client. The client pays the same amount of fees to the other adviser as they would if they had dealt with the adviser directly. Under our arrangement with SEI, we receive 10% of the investment management fee that SEI collects.

### **Outside Compensation**

RAI may refer clients to unaffiliated professionals for specific needs, such as insurance, mortgage brokerage, real estate sales, and estate planning, legal, and/or tax/accounting services. In turn, these professionals may refer clients to RAI for investment management/financial planning needs. We do not have any agreements with individuals or companies that we refer clients to, and we do not receive any compensation for these referrals. However, it could be concluded that RAI is receiving an indirect economic benefit from the arrangement, as the relationships are mutually beneficial. For example, there could be an incentive for us to recommend services of firms who refer clients to RAI.

RAI only refers clients to professionals we believe are competent and qualified in their field, but it is ultimately the client's responsibility to evaluate the provider. We will generally provide the client with a list of professionals that the client can contact, and it is solely the client's decision whether to engage a recommended firm. Clients are under no obligation to purchase any products or services through these professionals, and RAI has no control over the services provided by another firm. Clients who chose to engage these professionals will sign a separate agreement with the other firm. Fees charged by the other firm are separate from and in addition to fees charged by RAI.

If the client desires, RAI will work with these professionals or the client's other advisers (such as an accountant, attorney, or other investment adviser) to help ensure that the provider understands the client's financial plan/investments and to coordinate services for the client. RAI does not share information with an unaffiliated professional unless first authorized by the client.

## **ITEM 15 - CUSTODY**

RAI has custody of certain clients' assets, such as when one of the principals of RAI serves as general partner of a partnership in which a client of RAI has invested. RAI has put controls in place, in compliance with federal rules, to protect clients' assets over which we have custody. The general partner provides partners with annual audited financial statements, commentary, K-1 tax reports, and an annual investor meeting. Each investor is issued a certificate of ownership unless the asset is held in an IRA account, then the IRA custodian holds the certificate of ownership.

RAI does not act as custodian for any client. The custodian, at least quarterly, sends account statements directly to the client or client's independent representative. RAI never accepts checks made payable to Richey Advisors, Inc., other than for financial planning services, and we do not hold or take custody of stock or bond certificates directly from clients.

RAI also has limited custody of our clients' funds or securities when clients authorize us to deduct our management fees directly from the client's account. As mentioned above, clients' accounts are held by independent qualified custodians who send statements directly to the client at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of RAI's fee. Clients should carefully review the account statements they receive from their qualified custodian. When clients receive statements from RAI as well as from the qualified custodian, clients should compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive their statement from their qualified custodian at least quarterly should also notify us.

## ITEM 16 - INVESTMENT DISCRETION

RAI has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. RAI will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority within their accounts when they sign the custodian paperwork. Certain client-imposed conditions may limit our discretionary authority, such as where the client prohibits transactions in specific security types. See also ***Tailored Services and Client Imposed Restrictions*** under ***Item 4***, above.

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

RAI does not accept or have the authority to vote proxy statements for client securities. However, clients may call us if they have questions about a particular solicitation. RAI will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

### ERISA

For accounts subject to ERISA, an authorized plan fiduciary other than RAI will retain proxy voting authority. Our investment advisory agreement and/or the plan's written documents will evidence and outline this authority.

### Class Actions

RAI does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. However, if a client notifies us

that they wish to participate in a class action, we will provide the client with any transaction information pertaining to the client's account needed for the client to file a proof of claim in a class action.

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. Because RAI does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance, RAI is not required to provide clients with information regarding the firm's financial condition nor does the firm foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

## **ITEM 19 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

RAI is currently licensed with the U.S. Securities and Exchange Commission and is providing this information in anticipation of switching to California registration prior to our next fiscal year-end.

### **Principal Executive Officers and Management Persons**

The principal executive officers and management persons of RAI are J. Hugh Richey, President, and James P. Ripley, Vice President of Operations, and Chief Compliance Officer. A description of their education and business background is included in the brochure supplement, Form ADV Part 2B, initially provided to clients. Clients can also get a copy of the brochure supplement for RAI's officers at any time by contacting us at the address or phone number on the cover page of this brochure.

### **Other Business Activities**

RAI is affiliated with Richey Financial Group, Inc. This relationship is described under ***Affiliated Broker-Dealer and Insurance Agencies*** in ***Item 10***, above.

### **Performance-Based Fees**

RAI does not charge performance-based fees or other fees based on a share of capital gains or on capital appreciation of the assets of a client.

### **Legal and Disciplinary Issues**

Under state reporting rules, we are required to disclose certain information regarding the firm and its management persons. In 1987, the National Association of Securities Dealers (NASD) found J. Hugh Richey in violation of SEC rule 15c2-4. The issue concerned the manner in which a bank account was established to escrow funds for investment in the Temescal Village Shopping Center (described in ***Item 10*** above). In the action, the NASD noted that while J. Hugh Richey established a separate earmarked bank account for public customers investing in the partnership, which was handled in a manner similar to an escrow account, a formal escrow account was not established, in that the bank employed by Richey did not have an escrow department. As a result, the firm was censured and a \$5,000 fine was levied against Richey Financial Group, Inc.

## **Arrangements with Securities Issuers**

RAI and our personnel have no relationships or arrangements with issuers of securities.



# **Richey Advisors, Inc.**

## **Form ADV, Part 2B Brochure Supplement**

**J. Hugh Richey**  
**James P. Ripley, AAMS, CFP®**  
**Francis “Norm” Kredit, CFP®**

110 E. Wilshire Street  
Suite 307  
Fullerton, CA 92832  
(714) 449-9696

**Terri Grassi**  
1965 E. Chapman Ave.  
Fullerton, CA 92831  
(714) 680-4949

**May 27, 2011**

This brochure supplement provides information about J. Hugh Richey, James P. Ripley, Francis “Norm” Kredit, and Terri Grassi that supplements the Richey Advisors, Inc. brochure. You should have already received a copy of that brochure. Please contact Trina Davis if you did not receive our brochure or if you have any questions about the contents of this supplement.

Additional information about J. Hugh Richey, James P. Ripley, Francis “Norm” Kredit, and Terri Grassi is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **J. Hugh Richey**

### **ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**J. Hugh Richey**, President, b. 1941

*Education:*

Business and Finance degree from Sanford Brown College, St. Louis, Missouri, 1962

*Business Background:*

- President, Richey Advisors, Inc., 07/1992 to present
- President, Richey Financial Group, Inc., 07/1986 to present

### **ITEM 3 - DISCIPLINARY INFORMATION**

J. Hugh Richey has no disciplinary history to disclose.

### **ITEM 4 - OTHER BUSINESS ACTIVITIES**

In addition to J. Hugh Richey's business of providing investment advice through RAI, he also conducts management duties as President of Temescal Funding, Inc. and as general partner of Temescal Partners, Ltd. He spends approximately 5 hours per month on this activity. He is also President and owns 100% of Richey Financial Group, Inc., a broker-dealer registered with the U.S. Securities and Exchange Commission and a Financial Industry Regulatory Authority ("FINRA") member, and California licensed insurance agency (License# 0790505).

In his capacity as a registered principal and insurance agent, J. Hugh Richey may recommend securities, insurance, or other products to the firm's clients. Consequently, he may receive commissions for products he sells. Therefore, a conflict of interest exists between the interests of J. Hugh Richey and those of the advisory clients because he may have an incentive to recommend products and services based on the additional compensation he receives. However, clients are under no obligation to act upon any recommendations of J. Hugh Richey or effect any transactions through him if they decide to follow his recommendations.

### **ITEM 5 - ADDITIONAL COMPENSATION**

J. Hugh Richey also receives compensation for conducting management duties as President of Temescal Funding, Inc. and as general partner of Temescal Partners, Ltd. He also derives brokerage and insurance based commission income from Richey Financial Group, Inc.

### **ITEM 6 - SUPERVISION**

J. Hugh Richey is the President of RAI and supervises all employees.

## ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Under state reporting rules, we are required to disclose certain information regarding the firm and its management persons. In 1987, the National Association of Securities Dealers (NASD) found J. Hugh Richey in violation of SEC rule 15c2-4. The issue concerned the manner in which a bank account was established to escrow funds for investment in the Temescal Village Shopping Center (described in **Item 10** above). In the action, the NASD noted that while J. Hugh Richey established a separate earmarked bank account for public customers investing in the partnership, which was handled in a manner similar to an escrow account, a formal escrow account was not established, in that the bank employed by Richey did not have an escrow department. As a result, the firm was censured and a \$5,000 fine was levied against Richey Financial Group, Inc.

## James P. Ripley

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**James P. Ripley**, Vice President of Operations, Chief Compliance Officer, b. 1962

#### *Education:*

- Accredited Asset Management Specialist (AAMS), International Board of Standards and Practices for Certified Financial Planners, 2000
- Certified Financial Planner™ (CFP®), International Board of Standards and Practices for Certified Financial Planners (IBCFP), 1991
- B.A., Business Administration, California State University Fullerton, 1987

#### *Business Background:*

- Vice President of Operations, Richey Advisors, Inc., 07/1992 to present
- Chief Compliance Officer, Richey Advisors, Inc., 07/2006 to present
- Registered Representative, Richey Financial Group, Inc., 02/1990 to present

#### *Professional Designations*

James P. Ripley holds the following professional designations:

#### *Accredited Asset Management Specialist*

The Accredited Asset Management Specialist (“AAMS”) designation is issued by The College for Financial Planning. To earn the designation, each AAMS candidate must complete a 12 module self study program, pass a proctored final exam, and complete a minimum of 16 hours of continuing education every two years. Designees must agree to adhere to the issuing organization’s Standards of Professional Conduct and are subject to a disciplinary process. More information regarding the AAMS is available at <http://www.cfpdesignations.com/Designee/Requirements>.

#### *Certified Financial Planner*

The Certified Financial Planner™ and CFP® (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. The CFP® 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.

To earn the credential, each CFP® candidate must have a bachelor’s degree (or higher) from an accredited college or university and three years of full-time personal financial planning experience. In addition, candidates must take the CFP® Certification examination and complete a CFP® -board registered program or hold an accepted designation, degree, or license. Every two years, CFP® certificate holders must complete a minimum of 30 hours of continuing education. More information regarding the CFP® is available at <http://www.cfp.net/default.asp>.

### **ITEM 3 - DISCIPLINARY INFORMATION**

James P. Ripley has no disciplinary history to disclose.

### **ITEM 4 - OTHER BUSINESS ACTIVITIES**

In his capacity as a registered principal and insurance agent (CA license # 0733125), James P. Ripley may recommend securities, insurance, or other products to the firm's clients. Consequently, he may receive commissions for products he sells. Therefore, a conflict of interest exists between the interests of James P. Ripley and those of the advisory clients because he may have an incentive to recommend products and services based on the additional compensation he receives. However, clients are under no obligation to act upon any recommendations of James P. Ripley or effect any transactions through him if they decide to follow his recommendations.

### **ITEM 5 - ADDITIONAL COMPENSATION**

James P. Ripley's compensation through RAI is based on the clients he introduces to the firm and a share of company profits. He also derives brokerage and insurance based commission income from Richey Financial Group, Inc. and an unaffiliated, outside insurance agency.

### **ITEM 6 - SUPERVISION**

J. Hugh Richey, President, is responsible for supervising James P. Ripley's activities. J. Hugh Richey monitors the advice provided by James P. Ripley for consistency with client objectives and RAI's policies. J. Hugh Richey can be reached by calling (714) 449-9696.

### **ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

James P. Ripley has no additional disclosures.

## Francis “Norm” Kredit

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Francis “Norm” Kredit, Associate Planner, b. 1944

#### *Education:*

- Certified Financial Planner™ (CFP®), International Board of Standards and Practices for Certified Financial Planners (IBCFP), 1991
- B.A., History, California State University Fullerton, 1972

#### *Business Background:*

- Associate Planner, Richey Advisors, Inc., 04/1997 to present
- Registered Principal, Richey Financial Group, Inc., 04/1997 to present

#### Professional Designations

Francis “Norm” Kredit holds the following professional designation:

#### *Certified Financial Planner*

The Certified Financial Planner™ and CFP® (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. The CFP® 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.

To earn the credential, each CFP® candidate must have a bachelor’s degree (or higher) from an accredited college or university and three years of full-time personal financial planning experience. In addition, candidates must take the CFP® Certification examination and complete a CFP® -board registered program or hold an accepted designation, degree, or license. Every two years, CFP® certificate holders must complete a minimum of 30 hours of continuing education. More information regarding the CFP® is available at <http://www.cfp.net/default.asp>.

### ITEM 3 - DISCIPLINARY INFORMATION

Francis “Norm” Kredit has no disciplinary history to disclose.

### ITEM 4 - OTHER BUSINESS ACTIVITIES

In his capacity as a registered principal, Francis “Norm” Kredit may recommend securities or other products to the firm’s clients. Consequently, he may receive commissions for products he sells. Therefore, a conflict of interest exists between the interests of Francis “Norm” Kredit and those of the advisory clients because he may have an incentive to recommend products and services based on the additional compensation he receives. However, clients are under no obligation to act upon any

recommendations of Francis “Norm” Kredit or effect any transactions through him if they decide to follow his recommendations.

## **ITEM 5 - ADDITIONAL COMPENSATION**

Francis “Norm” Kredit’s compensation through RAI is based on the clients he introduces to the firm. He also derives brokerage based commission income from Richey Financial Group, Inc.

## **ITEM 6 - SUPERVISION**

J. Hugh Richey, President, is responsible for supervising Francis “Norm” Kredit’s activities. J. Hugh Richey monitors the advice provided by Francis “Norm” Kredit for consistency with client objectives and RAI’s policies. J. Hugh Richey can be reached by calling (714) 449-9696.

## **ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Francis “Norm” Kredit has no additional disclosures.

# Terri Grassi

## ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Terri Grassi**, Representative, b. 1954

### *Education:*

- Certified Public Accountant, State of California Department of Consumer Affairs State Board of Accountancy, 1989. (RAI is not an accounting firm and does not hold itself out as an accounting firm, and is not a licensee of the California Board of Accountancy)
- B.A., Business Administration with a concentration in Accounting, California State University Fullerton, 1988
- Associates of Science, Medical Laboratory Technology, New York City Community College, 1974

### *Business Background:*

- Representative, Richey Advisors, Inc., 01/2010 to present
- Partner, Martin, Grassi & Company - Certified Public Accountants, LLP, 1993 to present
- Registered Representative, Financial Network Investment Corporation, 01/1999 to 12/2009

## ITEM 3 - DISCIPLINARY INFORMATION

Terri Grassi has no disciplinary history to disclose.

## ITEM 4 - OTHER BUSINESS ACTIVITIES

Terri Grassi's primary business is providing accounting services as Partner at Martin, Grassi & Company. In her capacity as an insurance agent (CA license # 0C55649, Terri Grassi may recommend insurance products to the firm's clients. Consequently, she may receive commissions for products she sells. Therefore, a conflict of interest exists between the interests of Terri Grassi and those of the advisory clients because she may have an incentive to recommend products and services based on the additional compensation she receives. However, clients are under no obligation to act upon any recommendations of Terri Grassi or effect any transactions through her if they decide to follow her recommendations.

## ITEM 5 - ADDITIONAL COMPENSATION

Terri Grassi's primary compensation comes from providing accounting services through Martin, Grassi & Company, which is independent of RAI. RAI compensates her based on the amount of advisory business she brings to the firm. She also derives insurance based commission income from an unaffiliated, outside insurance agency.

## ITEM 6 - SUPERVISION

J. Hugh Richey, President, is responsible for supervising Terri Grassi's activities. J. Hugh Richey monitors the advice provided by Terri Grassi for consistency with client objectives and RAI's policies. J. Hugh Richey can be reached by calling (714) 449-9696.



## **ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Terri Grassi has no additional disclosures.

## **PRIVACY POLICY STATEMENT**

The policy presented below covers Customer Information. Customer Information means information personally identifiable with a specific customer or about a customer's current or former relationship as follows:

### **INFORMATION WE COLLECT**

We are committed to safeguarding the confidential information of our clients. One of our most important activities is that of maintaining the security of Customer Information. We value your trust and carefully handle all information we possess about you. These records include information gathered from applications, forms, and other information you provide us, whether in writing, in person, by telephone, electronically, or by any other means, such as your name, address, social security number, assets, income, and debt. This would also include other general information we obtain about you for the purpose of determining your eligibility for insurance, products, or services you request.

### **INFORMATION SECURITY IS A PRIORITY**

We limit employee and agent access to Customer Information only to those who have a business or professional reason for knowing. To affiliated parties, we disclose such information to effect, administer, or enforce transactions authorized by you. Our employees are required by law to refrain from disclosing any confidential information or materials to unauthorized persons, both during their employment and afterwards. We maintain a secure office and computer environment to ensure that your information is not placed at unreasonable risk.

### **SHARING INFORMATION**

For nonaffiliated third parties that require access to your Customer Information, including financial service companies, consultants and auditors, we also require strict confidentiality in our agreements with them and expect them to keep this information private. Federal and state regulators also may review firm records as permitted or required under law.

### **PROTECTING YOUR INFORMATION**

We do not provide Customer Information to mailing list vendors or solicitors for any purpose. Your Customer Information will be maintained in our safekeeping during the time you are a client, and for the time thereafter that such records are required by federal and state securities laws to be maintained. After this required period of record retention, all such information will be destroyed.