

# Lovett Investment Consulting, LLC

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This Brochure provides information about the qualifications and business practices of LOVETT INVESTMENT CONSULTING, LLC [“LOVETT INVESTMENT”]. If you have any questions about the contents of this Brochure, please contact us at 970-367-7574 or [clay@lovettinvestment.com](mailto:clay@lovettinvestment.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.

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

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

## **Item 2 – Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, 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 are made 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.

### Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes.....	ii
Item 3 -Table of Contents .....	iii
Item 4 – Advisory Business.....	1
Item 5 – Fees and Compensation.....	3
Item 6 – Performance-Based Fees and Side-By-Side Management .....	3
Item 7 – Types of Clients .....	3
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	4
Item 9 – Disciplinary Information.....	5
Item 10 – Other Financial Industry Activities and Affiliations .....	5
Item 11 – Code of Ethics.....	5
Item 12 – Brokerage Practices.....	6
Item 13 – Review of Accounts .....	9
Item 14 – <i>Client</i> Referrals and Other Compensation .....	9
Item 15 – Custody .....	10
Item 16 – Investment Discretion .....	10
Item 17 – Voting <i>Client</i> Securities.....	10
Item 18 – Financial Information.....	11
Brochure Supplement(s)	

#### Item 4 – Advisory Business

Lovett Investment Consulting, LLC began business in May 2007 to provide investment advisory services to the family office clients of D. Clay Lovett, CPA. Daniel Clay Lovett is the Managing Member, 99% owner and sole employee of Lovett Investment Consulting, LLC. He is also the sole proprietor and sole employee of D. Clay Lovett, CPA.

With a couple of exceptions, the clients of Lovett Investment are four individuals who were partners or owners in a business in which Daniel Clay Lovett was employed from 1987 until the business was sold in 1998. When the business was sold, Daniel Clay Lovett began to provide tax and accounting services to the principal owners of the business through a sole proprietorship, D. Clay Lovett, CPA. As part of these services, D. Clay Lovett, CPA assisted its clients in interviewing, selecting and monitoring the performance of investment managers.

Lovett Investment began business in May 2007 to be able to directly provide investment advisory services to these clients of D. Clay Lovett, CPA. The clients include not only the four individuals, but also their immediate family members and entities (partnerships, trusts, charitable foundations) owned or controlled by these four individuals and members of their immediate families.

Lovett Investment has had only two clients in addition to these four family groups. In each case, the clients approached Lovett Investment. Lovett Investment does not solicit clients, and will only take on additional clients if it can do so without compromising the service it provides to its existing clients. One of these clients ended its relationship with Lovett Investment in February 2009 because of losses arising from the market turbulence of 2008 and early 2009. Lovett Investment began working with the second of these two clients in March of 2010.

In addition to these clients, Lovett Investment provides investment advice without charge to immediate family members and a childhood friend of Daniel Clay Lovett.

Lovett Investment works with each client to develop an investment asset allocation plan that is specific to that client. The core of Lovett Investment's service to its clients is it to help the client decide how to allocate their portfolio among the investment asset classes (domestic equities, international equities, fixed income, cash, etc).

The next step is to select the securities to implement the asset allocation plan. Lovett Investment does not have the experience or the time to evaluate and recommend individual securities. Consequently Lovett Investment will recommend a combination of mutual funds, exchange traded funds (ETF) and *Independent Manager(s)* (see following paragraph). The only individual securities Lovett Investment will recommend and purchase on behalf of clients are U.S. Treasury Bills and Notes, including inflation adjusted notes. Clients are allowed to include individual securities in their portfolios, and Lovett Investment will purchase them on the client's behalf if directed to do so and will include the securities in the portfolio reports for the client. Clients may impose restrictions on investing in certain securities or types of securities.

For those clients that require an enhanced and/or specialized level of asset management services, Lovett Investment may also recommend that certain clients authorize the active discretionary management of a portion of their assets by independent investment manager(s) and/or investment programs (the "*Independent Manager(s)*"), based upon the stated investment objectives of the client. The terms and conditions under which the client shall engage the *Independent Manager(s)* shall be set forth in a separate written agreement between the client and the designated *Independent Manager(s)*. Independent Manager(s) shall also provide the client with a copy of the written disclosure statement of the *Independent Manager(s)*. Lovett Investment shall continue to render investment supervisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which Lovett Investment shall consider in recommending *Independent Manager(s)* include the client's designated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research.

Once the target asset allocation has been agreed upon and the mutual funds, money managers, etc. selected to implement the target allocation, Lovett Investment will implement the plan by purchasing the mutual funds, ETFs, Treasury Notes etc. in client accounts where it has trading authority, and by assisting the client in transferring money to accounts managed by *Independent Manager(s)*. Lovett Investment will then monitor the client accounts and make periodic recommendations to rebalance back to the target allocation, change funds or managers, or change the target allocation. Recommendations to change funds or managers or to change the target allocation are not expected to occur frequently. A Client may decide to give Lovett Investment the authority to make these changes without first discussing it with the client.

Lovett Investment will periodically (usually quarterly) provide reports to its clients showing the portfolio allocation and performance. Clients will also receive statements directly from custodians (brokerages, banks, etc), and reports from Independent Manager(s) if they are used. Clients should always compare reports received directly from Lovett Investment to these statements from independent custodians and Independent Manager(s).

## **ASSETS UNDER MANAGEMENT.**

Lovett Investment manages or provides advice on a regular and continuous basis for approximately \$140,200,000 of client investments. \$18,100,000 of this is on a discretionary basis and \$122,100,000 of this is on a non-discretionary basis. In addition, Lovett Investment provides advice on approximately \$35,400,000 of other client investments that is not on a continuous and regular basis. Such other assets include client investment in private equity and real estate partnerships and Independent Manager(s) that Lovett Investment does not have the discretionary authority to hire or fire.

## **Item 5 – Fees and Compensation**

Lovett Investment has no set fee schedule. All fees are flat fees and are negotiated in advance between each client and Lovett Investment and are billed quarterly in arrears. Sometimes bills are sent out less frequently, but always the billing is in arrears. Clients may also elect to be billed directly for fees or to authorize Lovett Investment to directly debit fees from client accounts. Fees are adjusted no more frequently than annually and are always agreed to in advance by Lovett Investment and client.

Lovett Investment's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as 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 and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Independent Manager(s) used will also charge a separate management fees, which are disclosed in the firms' Forms ADV. Such charges, fees and commissions are exclusive of and in addition to Lovett Investment's fee, and Lovett Investment shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that Lovett Investment considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (e.g., commissions).

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Lovett Investment does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

Lovett Investment's clients are high net-worth individuals with investment assets in excess of \$5,000,000. Clients also include children and grandchildren of clients and entities, such as family partnerships, trusts, estates, charitable foundations, etc., created by, controlled, or held for the benefit of clients and/or their children and grandchildren. The goal is to provide investment advice to all generations of a high net-worth family and, with the consent of all parties, view the family's investment assets as a single multi-generation portfolio.

With one exception, Lovett Investment's current clients are all members of four families who were owners of the business where the principal of Lovett Investment, Daniel Clay Lovett,

worked from 1987-1998 or entities owned, controlled, or held for the benefit of these family members.

In addition to these clients, Lovett Investment also provides investment advice, free of charge, to the family members and childhood best friend of Daniel Clay Lovett.

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

Because it works with a small number of clients, Lovett Investment works closely with each client to develop an asset allocation plan that appropriately reflects that client's situation, and then select investments, such as Independent Manager(s), mutual funds, ETFs, Treasury notes and bills, etc. to implement the asset allocation plan. It intended to be a collaborative process in which Lovett Investment will make recommendations, but the final decision is made by the client

Once the target asset allocation and investment vehicles (managers, mutual funds, etc) to implement the target allocation are agreed to by the client, Lovett Investment will implement the plan without consulting with the client on each transaction. With client's prior approval, Lovett Investment will also rebalance the portfolio back to its target allocation without checking with the client each time.

Lovett Investment's approach to recommending target asset allocations for clients is more strategic than tactical. Therefore, changes to an asset allocation recommendation are made infrequently. How long the portfolio will be invested before the client starts to make withdrawals and the size of the portfolio in relation to the client's need to withdraw from the portfolio are two of the most important factors in determining how much risk of loss the client should take in search for higher returns. Lovett Investment and the client discuss the client's intellectual and emotional attitude towards risk of a severe and rapid decline in the value of the client's investments. That understanding will also heavily influence the asset allocation recommendation. The goal is to have a target allocation that the client will stay with during periods of severe market declines similar to what occurred during 2008 and early 2009. Lovett Investment's experience is that most individuals overestimate their emotional ability to stick with a plan during such difficult times.

Although changes to a client's asset allocation recommendation are not frequent, Lovett Investment will recommend that clients increase (or decrease) their allocation to equities when equity market values in relationship to earnings and replacement cost are at levels that have been associate in the past with higher (or lower) future returns. Lovett Investment considers the PE 10 Ratio developed by Robert Shiller (see <http://dshort.com/articles/SP-Composite-pe-ratios.html>); the Q Ratio developed by James Tobin (<http://dshort.com/articles/Q-Ratio-and-market-valuation.html>), and the seven-year asset allocation forecasts published by GMO in making these recommendations.

Lovett Investment holds to a core belief that the future is unknowable. Lovett Investment's intention is to help clients achieve their goals by developing asset allocation plans that are

appropriate for their resources and needs as well as their ability to tolerate risk, and then to recommend modifications to the asset allocation if market valuations associated with periods of above or below average returns in the past exist. However, there is no guarantee that Lovett Investment's assistance will help clients achieve their financial goals. Investing in securities involves risk of temporary declines and permanent loss of value that clients should be prepared to bear. In addition to the risk of permanent loss of value, clients also face the risk that their return after taxes will not exceed inflation, which will result in the loss of real value even if the nominal value of their portfolio goes up.

Each mutual fund or third-party money manager recommended by Lovett Investment will have its own unique set of risks which will be outlined in the mutual fund prospectus or third-party money manager Form ADV. Client's should examine these documents.

### **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 a client's evaluation of Lovett Investment or the integrity of Lovett Investment's management. Lovett Investment has no information applicable to this Item.

### **Item 10 – Other Financial Industry Activities and Affiliations**

Daniel Clay Lovett, the Managing Member, 99% owner and sole employee of Lovett Investment Consulting, LLC, is also the sole proprietor and sole employee of D. Clay Lovett, CPA. All of Lovett Investment's clients are also clients of D. Clay Lovett, CPA. Clients of Lovett Investment are NOT required to retain D. Clay Lovett, CPA in any capacity. The family members and childhood friend of Daniel Clay Lovett to whom Lovett Investment provides free advice are not clients of D. Clay Lovett, CPA. Approximately 50% of Daniel Clay Lovett's time is spent working for Lovett Investment Consulting and 50% working for his CPA firm, D. Clay Lovett, CPA.

D. Clay Lovett, CPA has only two clients that are not clients of Lovett Investment. D. Clay Lovett, CPA provides tax preparation and consulting services to these two clients.

### **Item 11 – Code of Ethics**

Lovett Investment has adopted a Code of Ethics describing its high standard of business conduct, and fiduciary duty to its clients. Clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Daniel Clay Lovett.

Lovett Investment's sole employee will usually invest in most of the securities it recommends to clients. If the employee buys or sells securities on the same day as Lovett Investment buys or



sells the securities on behalf of a client, the client's orders are entered prior to the employees. The employee will not buy a security on the day Lovett Investment is selling the security for a client, nor will the employee sell a security on the day Lovett Investment is purchasing the security for a client. Most of the securities held by Lovett Investment's employee and by clients are either mutual funds, which settle at the Net Asset Value at the end of the day, or U.S. Treasury Notes and Bills, which are purchased with noncompetitive bids at original auction and held to maturity.

Lovett Investment and its sole employee have a fiduciary duty to put the client's interest first and to evaluate every action with that standard in mind.

## **Item 12 – Brokerage Practices**

### **Custodian and Brokers**

Lovett Investment does not maintain custody of client assets that it manages or on which it provides advice, *although in certain situations Lovett Investment is deemed to have custody of client assets because clients have given a related party of Lovett Investment the authority to withdraw assets from some of their accounts (see Item 15 - Custody, below).*

Client assets must be maintained in an account or accounts at a "qualified custodian," generally a broker-dealer or bank. Currently, Lovett Investment recommends that clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian for some or all of the assets that it manages or on which it provides advice. Lovett Investment is independently owned and operated and is not affiliated with Schwab. Even though client accounts are maintained at Schwab, clients can still use other brokers to execute trades for their account as described below (see "Client Brokerage and Custody Costs").

### **Selecting Brokers/Custodians**

Lovett Investment seeks to recommend a custodian/broker who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. Lovett Investment considers a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades.
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist Lovett Investment in making investment decisions
- Quality of services

- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to Lovett Investment and its clients
- Availability of other products and services that benefit Lovett Investment, as discussed below (see "Products and Services Available to Lovett Investment From Schwab")

### **Client Brokerage and Custody Costs**

For client accounts that Schwab maintains, Schwab generally does not charge separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into client Schwab account. Schwab's commission rates applicable to client accounts were negotiated based on the condition that Lovett Investment clients collectively maintain a total of at least \$50,000,000 of their assets in accounts at Schwab. This commitment benefits clients because the overall commission rates are lower than they would be otherwise. In addition to commissions, Schwab charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that is executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a client's Schwab account. These fees are in addition to the commissions or other compensation paid the executing broker-dealer. Because of this, in order to minimize trading costs, Lovett Investment has Schwab execute most trades for assets held at Schwab. Lovett Investment has determined that having Schwab execute most trades for assets held at Schwab is consistent with its duty to seek "best execution" of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see "Selecting Brokers/Custodians").

### **Products and Services Available to Lovett Investment from Schwab**

Schwab Advisor Services<sup>TM</sup> (formerly called Schwab Institutional<sup>®</sup>) is Schwab's business serving independent investment advisory firms like Lovett Investment. They provide Lovett Investment and its clients with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help Lovett Investment manage or administer its clients' accounts, while others help Lovett Investment manage its business. Schwab's support services generally are available on an unsolicited basis (Lovett Investment does not have to request them) and at no charge to Lovett Investment as long as its clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If Lovett Investment's clients collectively have less than \$10,000,000 in assets at Schwab, Schwab may charge it a quarterly service fee of \$1,200. Following is a more detailed description of Schwab's support services:

**Services That Benefit Clients.** Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which Lovett Investment might not otherwise have access or that would require a significantly higher

minimum initial investment by its clients. Schwab's services described in this paragraph generally benefit clients and their accounts.

**Services That May Not Directly Benefit each client.** Schwab also makes available other products and services that benefit Lovett Investment but may not directly benefit each client or their account. These products and services assist Lovett Investment in managing and administering its clients' accounts. They include investment research, both Schwab's own and that of third parties. Lovett Investment may use this research to service all or a substantial number of its clients' accounts, *including accounts not maintained at Schwab*. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts (this service is not currently used).
- Assist with back-office functions, recordkeeping, and client reporting

**Services That Generally Benefit Only Lovett Investment.** Schwab also offers other services intended to help Lovett Investment manage and further develop its business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services. *Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees.*

### **Lovett Investment Interest in Schwab's Services**

The availability of these services from Schwab benefits Lovett Investment because it does not have to produce or purchase them. Lovett Investment does not have to pay for Schwab's services so long as its clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon Lovett Investment committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give Lovett Investment an incentive to recommend or request that clients maintain their accounts with Schwab, based on its interest in receiving Schwab's services that benefit its business rather than based on clients' interest in receiving the

best value in custody services and the most favorable execution of transactions. This is a potential conflict of interest. Lovett Investment believes, however, that its selection of Schwab as custodian and broker is in the best interests of its clients. This selection is primarily supported by the scope, quality, and price of Schwab's services (see "Selecting Brokers/Custodians") and not Schwab's services that benefit only Lovett Investment. Lovett Investment has \$140,200,000 in client assets under management, and does not believe that recommending its clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

### **Item 13 – Review of Accounts**

Client accounts are reviewed periodically to compare the current allocation of the investments to the client's target asset allocation by Lovett Investment's Managing Member, Daniel Clay Lovett. Such reviews usually occur weekly, but no less frequently than monthly. Significant changes in securities market indices will result in more frequent account reviews.

Clients will receive periodic, usually quarterly, written reports from Lovett Investment showing the allocation of their portfolio compared to the target asset allocation and performance of the client's entire portfolio. Clients will also receive monthly statements directly from custodians and are urged to compare statements received directly from custodians to the reports received from Lovett Investment.

Clients may contact Lovett Investment at any time to discuss their investments and to request reports between the periodic reports they normally receive.

### **Item 14 – Client Referrals and Other Compensation**

Lovett Investment receives an economic benefit from Schwab in the form of the support products and services it makes available to Lovett Investment and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit Lovett Investment, and the related conflicts of interest are described above (see *Item 12 - Brokerage Practices*). The availability to Lovett Investment of Schwab's products and services is not based on Lovett Investment giving particular investment advice, such as buying particular securities for its clients.

Lovett Investment does not compensate anyone, directly or indirectly for client referrals.

## **Item 15 – Custody**

For two families that are clients, Lovett Investment is deemed to have custody of some of the families' accounts because a related party, D. Clay Lovett, CPA, has the authority to withdraw funds from these accounts as part of providing family office services to those families.

*Clients should receive at least quarterly statements from broker dealers, banks or other qualified custodians that hold and maintain client's investment assets. Lovett Investment urges all clients, but particularly clients for whom it is deemed to have custody, to carefully review such statements and compare such official custodial records to the reports that Lovett Investment provides to client. Lovett Investment's reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.*

Beginning in 2010, the SEC requires Lovett Investment to undergo an annual surprise examination conducted by an independent public accounting firm to verify assets over which it is deemed to have custody. The first examination was begun in the final week of 2010 and the accountant's report will be filed by May 31, 2011. Lovett Investment will provide a copy of this report to all of the owners of accounts over which it is deemed to have custody.

## **Item 16 – Investment Discretion**

In most cases Lovett Investment provides advice and manages client investments on a non discretionary basis. In these instances, Lovett Investment's discretion is limited to rebalancing back to a target asset allocation previously agreed to by the client and using securities which have also previously been agreed to by the client.

For some accounts Lovett Investment receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Currently all of these accounts are owned by or held for the benefit of the second or third generation of family clients. Such accounts are managed based on an understanding of the entire family's financial resources and goals.

## **Item 17 – Voting *Client* Securities**

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

## **Item 18 – Financial Information**

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