

Item 1 – Cover Page



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March 30, 2011

This Brochure, “Breakwater Investment Management ADV Part 2” provides information about the qualifications and business practices of Breakwater Investment Management, LLC (“Breakwater”). If you have any questions about the contents of this Brochure, please contact us at 206.624.9000 or info@breakwaterinvestment.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.

Breakwater is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about Breakwater also is available on the SEC’s website at 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 3/30/2011 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.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

This Brochure may be requested by contacting Jay Turley, Managing Member at 206.624.9000 or jay@breakwaterinvestment.com.

Additional information about Breakwater is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about people affiliated with Breakwater who are registered, as investment adviser representatives of Breakwater.

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Item 4 – Advisory Business

Breakwater Investment Management, LLC (hereinafter “Breakwater”) is a Washington State Limited Liability Company founded in August 2009. The founder and owner of Breakwater is Joseph F. (Jay) Turley.

Breakwater offers investment advisory and financial planning services to its clients. Advice and services are tailored to the stated objectives of you, the client(s).

Investment Advisory

We will manage investment portfolios on a separately managed account basis for individuals, high net worth individuals, qualified retirement plans, trusts, businesses and non-profit organizations. We will work with you to determine your investment objectives and investor risk profile. Once the your investment objectives and investor risk profile have been determined, we will allocate your portfolio taking into consideration the overall management style selected by you.

We work with new clients to develop a plan to transition from your existing portfolio to the desired portfolio. We will then monitor and update the allocations that make up your portfolio. You have the opportunity to place reasonable restrictions on the types of investments to be held in your portfolio.

Except as otherwise instructed, you grant us ongoing and continuous discretionary authority to execute our investment recommendations without prior approval in accordance with your objectives, as understood by us or as stated in your Investment Policy Statement (or similar document and or notes and discussions from meetings used to establish your objectives and suitability.) Under this authority, you allow us to purchase and sell securities and instruments in your account, and act on your behalf in most matters necessary or incidental to the handling of your account. The exception to this management is that we do not receive or vote proxies on issues held in the account or receive annual reports (see page 9). This responsibility remains with you. All transactions in the account shall be made in accordance with the directions and preferences provided to us by you.

Financial Planning

In addition to managing your investment portfolio, we may consult with you on various financial areas including college financial planning, retirement planning, and personal cash flow analysis, among other things.

We offer financial planning services to you. In general planning services are offered without charge for investment advisory clients. For non-investment advisory clients, fees for planning services are based on an hourly rate of \$250.00 per hour or a flat fee of \$1,000.00 to \$20,000.00, due at time of service. We occasionally do pro bono (free) planning for clients, based on their financial need. Services performed on a fixed fee basis are paid in advance

unless otherwise agreed upon. Special arrangement may be made with you should you wish to retain financial planning services on an ongoing basis.

Financial planning services may include:

- Investment Planning/Investment Policy Statements
- Financial Independence/Retirement Planning
- Capital Needs Analysis (Goal Funding)
- Income Tax Planning
- Estate Planning
- Education Planning
- Risk Management (Life and Disability Insurance)
- Employee Stock Option Planning
- Tax minimization strategies

Breakwater Allocation Wrap Program

Our wrap program was put in place to facilitate the transfer of accounts to Breakwater for clients that worked with Jay Turley at another firm prior to the inception of Breakwater. This program is closed to new accounts. As was the case in the prior firm, clients in the wrap program pay no management fees on cash and pay no trading fees. Trading fees are paid by Breakwater. In theory the wrap program creates an incentive for us to not recommend cash holdings and discourages us from trading. In practice there is no difference between our management and our recommendations for clients in the wrap program and those not in it.

Assets

As of January 4th, 2011 we managed a total \$65,769,257 in client assets, of which \$65,199,593 is discretionary and \$569,663 is non-discretionary.

Item 5 – Fees and Compensation

The specific manner in which fees are charged by us is established in your written investment advisory agreement. We will generally bill fees on a monthly basis in arrears. Fees are deducted directly from your investment accounts. Management fees are based on the market value of assets at the close of business on the last business day of the month. Fees are prorated for capital contributions and withdrawals made during the applicable calendar month. You bear responsibility for verifying the accuracy of fee calculations.

Our fees are exclusive of brokerage commissions, transaction fees, taxes, wire fees, fund internal fees, and other related costs and expenses which shall be incurred by the client.

Standard Fee Schedule

- 1.25% on entire balance for assets under \$500,000
- 1.00% on entire balance for assets between \$500,000 and \$1,000,000
- 0.80% on entire balance for assets between \$1,000,000 and \$5,000,000
- Fees on assets in excess of \$5,000,000 are negotiated

Notwithstanding the above, fees are negotiable.

Terminating engagements

You can terminate our engagement at any time by giving us written notice (email or letter). For investment management services, your account will be charged for the days prior to receipt of your notice. For financial planning engagements, refund requests will be honored any time prior to delivery of the written advice. In all cases we will be cooperative in resolving disputes and helpful if you wish to move your investments to the care of another firm. Our goal is excellent service any time you work with us, whether you are engaging us or leaving us.

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

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

Item 7 – Types of Clients

We seek to work with people who are pleasant in nature and kind to animals. We provide portfolio management services to individuals, high net worth individuals, qualified retirement plans, trusts, non-profit organizations and businesses. We provide financial planning services to individual clients.

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

Investment advice may be offered on any investments held by a client at the start of the advisory relationship.

There is no guarantee that we will achieve any level of performance and you will at times experience a loss when implementing an investment strategy. The primary vehicles to be used in the investment portfolio shall be passive exchange traded funds (ETFs) and, secondarily, mutual funds. Doing so will prioritize low costs, tax efficiency, transparency, low tracking error, and liquidity as primary objectives to capture asset class returns in the appropriate asset classes.

We generally seek to offer you global investment portfolios. In an attempt to diversify risk and home country bias, portfolios will frequently have a significant amount (more than half) of their investments in a combination of international bonds, international stocks and international real estate. Portfolios will typically have significant exposure to emerging markets and currency risks.

Our analysis is grounded in our educational background and training and utilizes financial newspapers, journals and magazines as well as research reports prepared by others, corporate rating services, prospectuses, filings with the Securities and Exchange

Commission and company press releases. We also regularly attend investment and academic presentations and conferences.

Investing in securities involves risk of loss that you must be prepared to bear.

Key Man Risk

We are a small firm with one principal executive who is also our Chief Investment Officer (CIO). This fact leads to “key man risk,” or the risk that something could happen to Jay Turley that negatively affects your portfolio.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have an unblemished compliance record.

Item 10 – Other Financial Industry Activities and Affiliations

We do not have any other financial industry affiliations.

Item 11 – Code of Ethics

We acknowledge that we have no greater responsibility than to put your interests before our own. We have a culture of transparency and integrity. Our Code of Ethics is designed to codify a culture of placing client’s interests first and treating clients as we would wish to be treated if we were clients.

We have adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to you. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, and personal securities trading procedures, among other things.

All employees of Breakwater must acknowledge the terms of the Code of Ethics annually, or as amended. Prompt reporting of internal violations is mandatory. Our chief compliance officer regularly evaluates employee performance to ensure compliance with the Code of Ethics. A copy of the Code of Ethics is available to you or any prospective client upon request by contacting Jay Turley.

Breakwater or individuals associated with us may buy and sell some of the same securities for our own accounts that we buy and sell for you. We may buy or sell securities for our own accounts for reasons not related to the strategies adopted by our clients. We will disclose to you any material conflict of interest relating to us, our representatives, or any of our employees which could reasonably be expected to impair the rendering of unbiased and objective advice.

We are a sponsor of a wrap fee program (Breakwater Allocation Wrap Program) for legacy accounts. The wrap fee program is closed to new accounts. Please see schedule H, which provides a detailed description of the wrap fee program.

It is our policy that the firm will not affect any principal or agency cross-securities transactions for your accounts. We will also not cross trades between your and another client's accounts. All trades are executed in publicly traded markets.

Item 12 – Brokerage Practices

We may recommend that you establish brokerage accounts with a particular registered broker-dealer, to maintain custody of your assets and to affect trades for your account ("Custodian".) We are independently owned and operated and not affiliated with the Custodian. The Custodian provides us with access to its institutional trading and custody services, which are typically not available to the Custodian's retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as some minimum amount of our Clients' assets are maintained in accounts at the Custodian, are not otherwise contingent upon us committing to the Custodian any specific amount of business (assets in custody or trading.) The Custodian's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our Client accounts maintained in its custody, the Custodian does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through the Custodian or that settle into Custodian accounts.

The Custodian also makes available to us other products and services that benefit us but may not benefit your accounts. Some of these other products and services assist us in managing and administering your accounts. These include software and other technology that provide access to your account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of our fees from your accounts; and assist with back-office functions, recordkeeping and Client reporting.

The Custodian also makes available to us other services intended to help us manage and further develop our business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, the Custodian may make available, arrange and/or pay for these types of services rendered to us by independent third parties. The Custodian may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us.

Our recommendation that you maintain your assets in accounts at the Custodian may be based in part on the benefit to us of the availability of some of the foregoing products and services which allow us to conduct business more efficiently and serve you better and not solely on the nature, cost or quality of custody and brokerage services provided by the Custodian, which may create a potential conflict of interest.

Item 13 – Review of Accounts

Accounts are reviewed by Jay Turley or qualified staff members. All reviews are either conducted or supervised by Jay Turley. The frequency of reviews is based on your investment objectives, on an as-needed basis. More frequent reviews may also be triggered by a change in your investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; or, changes in macro-economic climate.

If you are a financial planning client, you will receive your financial plan and recommendations at the time service is completed. Financial plans are not reviewed after delivery.

Investment advisory clients receive standard account statements from the custodian of their accounts on a monthly basis. Financial planning clients do not normally receive investment reports.

Item 14 – Client Referrals and Other Compensation

We are not compensated for any referrals we make nor do we compensate anyone who refers clients to us. We have been approached by more than one small investment advisory firm to be a buyer of the business in the event of the owner's death or disability. We are flattered by the confidence this implies and may complete such agreements in the year ahead. We do not consider such estate planning measures material enough to trigger an updated ADV.

Item 15 – Custody

You should receive at least quarterly statements from the custodian that holds and maintains your investment assets. We urge you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

While clients maintain their funds at a qualified custodian independent of us, we do directly deduct management fees from your accounts. The SEC considers this action to be a form of custody. It is ultimately the 3rd party, independent custodian that is responsible for the safe keeping and reporting of client assets.

Item 16 – Investment Discretion

We receive discretionary authority from you at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for your particular account.

When considering and selecting securities and determining amounts for investments, we will observe the guidelines for your investment policies, limitations and restrictions. Any investment guidelines and restrictions must be provided to us in writing.

Item 17 – Voting *Client* Securities

As a matter of firm policy and practice, we do not have any authority to and do not vote proxies on behalf of you. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. For ERISA accounts (typically 401(k) accounts) the plan trustee votes proxies.

Item 18 – Financial Information

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

Item 19 – Requirements for State-Registered Advisers

Breakwater Investment Management is registered with the SEC at the time of publication of this brochure, but will be transitioning to state registration within the year. The following disclosures are required for State-Registered Advisers.

Education and Business Standards

Persons associated with us, other than persons whose functions are strictly clerical, are required to have a college degree and/or a professional designation such as J.D., CPA, CFA, CFP, MBA or equivalent experience in the securities industry.

Education and Business Backgrounds

Joseph F. (Jay) Turley

Born: 1959

Education

Masters of Business Administration, 1992
University of Washington, Seattle, WA

Visiting Student, 1991, Graduate School of Business
University of Cape Town, Cape Town, South Africa

Bachelor of Science, 1983
Babson College, Wellesley, MA

Designations

Jay Turley is a CFA (Chartered Financial Analyst) charter holder. The CFA designation is issued by the CFA Institute. A CFA candidate must meet one of the following education or experience requirements: Undergraduate degree and four years of professional experience involving investment decision-making, or four years qualified work experience (full time, but not necessarily investment related). CFA candidates must satisfy educational requirements of 250 hours of study and a course examination for each of the 3 levels. There are no continuing education or ongoing experience requirements to maintain the designation.

Jay Turley is also a CFP® (Certified Financial Planner) practitioner. The CFP designation is issued by the Certified Financial Planner Board of Standards, Inc. A CFP candidate must have a bachelor's degree or higher from an accredited college or university, and 3 years full-time personal financial planning experience. The candidate must complete a CFP-board registered program or hold one of the following: CPA, ChFC, CLU, CFA, Ph.D. in business or economics, Doctor of Business Administration or an Attorney's License. CFP candidates must pass the CFP Certification Examinations. To maintain the designation he must attend at least 30 hours of continuing education every two years.

Jay Turley is also a ChFC (Chartered Financial Consultant). The ChFC designation is issued by The American College. A ChFC candidate must have 3 years of full-time business experience within the five years preceding the awarding of the designation. The candidate must complete six core and two elective courses and pass a final proctored exam for each course. To maintain the designation he must obtain at least 30 continuing education credits every two years.

Business Background

2009 – Present, Managing member and founder
Breakwater Investment Management, LLC, Seattle, WA

2003 – 2009, Financial Advisor
Ameriprise Financial Services, Inc., Seattle, WA

1997 – 2002, Vice President and Co-founder (of acquired company)
Peak Systems, Seattle, WA

1994 – 1996, Financial Analyst
Starwave/Disney, Bellevue, WA

Memberships

CFA Society of Seattle, past President, past board member, Seattle, WA
CFA Institute, Member, Charlottesville, VA
Seattle Estate Planning Council, Member, Seattle, WA

Additional Information

Jay Turley owns a 1/3 interest in a small commercial farm in Spain (and cautions clients against making similar investments.)

Bethany A. Steinhaus

Education

Bachelor of Arts, 2004
University of Michigan, Ann Arbor, MI

Visiting student, 2004
Universidad de Salamanca, Salamanca, Spain

Master of Education, 2009
Seattle University, Seattle, WA

Business Background

2009 – Present, Client Service Manager
Breakwater Investment Management, LLC, Seattle, WA

2007 – 2009, Client Service Manager
Ameriprise Financial Services, Inc., Seattle, WA