

# Wrap Fee Brochure

June 16, 2011

## **Amstead Wealth Management, LLC**

*a Registered Investment Adviser*

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This wrap fee brochure provides information about the qualifications and business practices of Amstead Wealth Management, LLC (hereinafter "AWM"). If you have any questions about the contents of this brochure, please contact please contact Melissa A. Castellaw at (201) 705-1200. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Amstead Wealth Management, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Amstead Wealth Management, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This section of the wrap fee brochure discusses only the material changes that have occurred since AWM's last annual update of the wrap fee brochure. Since this is AWM's initial wrap fee brochure, there are no material changes to report.

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## Item 4. Services, Fees, and Compensation

The Amstead Wealth Management, LLC Wrap Fee Program (the “Program”) is an investment advisory program sponsored by AWM. The Program provides clients with the ability to trade in certain investment products without incurring separate brokerage commissions or transaction charges.

To join the Program, a client must:

- (1) Complete an investor profile that describes the client’s financial needs, investment objectives, time horizon, and risk tolerance, as well as any other factors relevant to the client’s specific financial situation and any other supporting documentation the Program requires;
- (2) Complete the investment advisory wrap fee agreement (the “*Agreement*”) with AWM;
- (3) Complete a new account agreement with Charles Schwab & Co., Inc. (“*Schwab*”), Pershing, LLC through Pershing Investment Manager Services (“*Pershing*”), or another broker dealer AWM approves for participation in the Program (“*Financial Institution*”); and
- (4) Open a securities brokerage account with the *Financial Institution* and deposit those assets designated for participation in the Program into the account.

After an analysis of any information provided by the client to AWM, AWM assists the client in developing an appropriate investment strategy for the assets in their accounts. Thereafter, all clients are encouraged to discuss their needs, goals, and objectives with AWM and to keep AWM informed of any changes thereto. AWM contacts ongoing clients at least annually to review its previous services and/or recommendations and to determine whether changes should be made to their investment strategy.

### Management of Your Portfolio

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All clients in the Program grant AWM discretionary authority to buy, sell, and otherwise trade in the type of securities described in Item 6, below for their accounts and to liquidate previously-purchased securities that the client has transferred to their Accounts. Assets are managed by one of AWM’s investment adviser representatives.

AWM recommends that certain clients authorize the active discretionary management of a portion of the assets by and/or among one or more independent investment managers (hereafter “*Independent Managers*”) to implement a particular investment strategy.

The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between AWM or the client and the designated *Independent Managers*. AWM continues to render advisory services to the client relative to the ongoing monitoring and review of account performance, for which AWM receives an annual advisory fee based upon a percentage of the market value of the assets managed by the designated *Independent Managers*. Factors that AWM considers in recommending *Independent Managers* include the client’s stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. In

addition to AWM's written disclosure brochure and/or wrap fee brochure, the client receives the written disclosure brochure of the designated *Independent Managers*.

### Fees for the Program

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Clients in the Program pay a single annualized fee for participation in the Program (the "*Program Fee*"). The *Program Fee* is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by AWM under Program on the last day of the previous quarter. The *Program Fee* varies (between 1.5% and 2.00%) depending upon the market value of the assets under management and the type of wealth management services to be rendered.

AWM, in its sole discretion, may negotiate to waive its stated account minimum or charge a lesser *Program Fee* based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

### Fee Comparison

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Under the Program, clients receive both investment advisory services and the execution of transactions for a single, combined annualized fee, the *Program Fee*. The *Program Fee* may also include the management and transaction fees charged by the *Independent Managers*. Participation in the Program may cost the client more or less than purchasing such services separately. The number of transactions made in the client's accounts, as well as the commissions charged for each transaction, determines the relative cost of the Program versus paying for execution on a per transaction basis and paying a separate fee for advisory services. The *Program Fee* may be higher or lower than fees charged by other sponsors of comparable investment advisory programs.

### Other Charges

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Clients may incur certain charges imposed by third parties in addition to the *Program Fee* such as fees charged by *Independent Managers* (as defined below), charges imposed directly by a mutual fund or exchange-traded fund in the account, which is disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), 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.

## Item 5. Account Requirements and Types of Clients

The Program participants include individuals, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

## Minimum Account Size

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As a condition for participating in the Program, AWM generally imposes a minimum portfolio size of \$1,000,000. AWM, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. AWM only accepts clients with less than the minimum portfolio size if, in the sole opinion of AWM, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. AWM may aggregate the portfolios of family members to meet the minimum portfolio size.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than AWM. In such instances, AWM may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Item 6. Portfolio Manager Selection and Evaluation

AWM acts as the sponsor and portfolio manager to the Program. Certain wrap programs involve the services of multiple parties in these capacities, which may involve additional conflicts of interest that the sponsor would be required to disclose in this section. AWM has no disclosures to make under this section.

## Advisory Business

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AWM's wealth management services which include a broad range of comprehensive financial planning services, portfolio construction, risk management, as well as discretionary and/or non-discretionary management of investment portfolios.

AWM primarily allocates clients' assets among *Independent Managers* (as defined below), mutual funds, exchange-traded funds ("ETFs"), as well as individual debt and equity securities in accordance with the investment objectives of the client. AWM also provides advice about any type of investment held in clients' portfolios.

AWM also may provide investment advice to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans or other products that may not be held by the client's primary custodian. In so doing, AWM either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

AWM tailors its advisory services to the individual needs of clients. AWM consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the

clients' investment needs. AWM ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify AWM if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon AWM's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in AWM's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

### **Performance-Based Fees and Side-by-Side Management**

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AWM does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

### **Methods of Analysis, Investment Strategies and Risk of Loss**

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#### Methods of Analysis

AWM's primary methods of analysis are fundamental and technical.

*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. AWM will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that AWM will be able to accurately predict such a reoccurrence.

#### Investment Strategies

When providing wealth management services to its clients, AWM strives to understand each client's individual needs, goals, and risk tolerance. Based on this information, AWM recommends solutions designed to achieve the client's financial needs.

AWM's proprietary wealth management process provides plan-led advice which focuses on mitigating downside deviation and integrating global solutions:

## *Financial Planning*

AWM reviews and analyzes the client's financial goals and inquires about long-term and short-term goals, while considering time horizon.

## *Risk Management*

AWM categorizes each client into one of its "3 buckets of risk" based on the client's stated goals and objectives. The *Preservation of Capital* bucket focuses on management of wealth for day-to-day living expenses. In this bucket, minimal risk is assumed, and a conservation allocation is used. The *Enhancing Lifestyle* bucket focuses on creating more wealth for the client, and assumes more risk than the *Preservation of Capital* bucket. The *Aspiration Risk* bucket focuses on the client's financial dreams and aspirations. The opportunistic portion of the portfolio is managed with specific goals and time frames in mind (such as charitable gifting, foundations, and legacy planning). Because this bucket focuses on the long-term, short/mid-term allocation strategies can be used because potential losses would not affect the client's existing lifestyle.

## *Asset Allocation and Portfolio Construction*

AWM utilizes a top-down approach, based on four categories. The *Boom* category focuses on high risk and momentum assets. Alternatively, *Slow Down* focuses on low risk, high quality and rising momentum assets. The *Recovery* category focuses on low quality, high risk, and momentum assets, while the *Recession* category focuses on low risk, high quality assets.

In addition, AWM provides regular investment review and due diligence to ensure each client's portfolio continues to perform in accordance with the stated goals and objectives.

## Risks of Loss

### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market



volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Market Risks*

The profitability of a significant portion of AWM's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that AWM will be able to predict those price movements accurately.

### *Use of Independent Managers*

AWM may recommend the use of *Independent Managers* for certain clients. AWM will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers'* ability to successfully implement their investment strategy. In addition, AWM does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### *Management Through Similarly Managed Accounts*

For certain clients, AWM may manage portfolios by allocating portfolio assets among various securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as "*investment strategy*"). In so doing, AWM buys, sells, exchanges and/or transfers shares of securities based upon the *investment strategy*.

AWM's management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to AWM's clients may be limited. AWM allocates investment opportunities among its clients on a fair and equitable basis.

## *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

## **Voting of Client Securities**

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AWM is required to disclose if it accepts authority to vote client securities. AWM does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

## **Item 7. Client Information Provided to Portfolio Managers**

AWM acts as the sponsor and portfolio manager to the Program. Certain wrap programs involve the services of multiple parties in these capacities. In those circumstances, the sponsor is required to disclose how and what type of information about client that it provides to portfolio managers. AWM has no disclosures to make under this section.

## **Item 8. Client Contact with Portfolio Managers**

There are no restrictions on a clients' ability to contact and consult with AWM.

Clients may contact *Independent Managers* through AWM by providing AWM with written request and identification of the questions or issues to be discussed with the *Independent Managers*. After receiving the client's written request AWM, at its sole discretion, contacts the *Independent Managers* for the client or arranges for the *Independent Managers* and the client to communicate directly.

## **Item 9. Additional Information**

### **Disciplinary Information**

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AWM is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. AWM does not have any required disclosures to this Item.

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

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AWM is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. AWM does not have any required disclosures to this Item.

## Code of Ethics

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AWM and persons associated with AWM ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with AWM's policies and procedures.

AWM has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by AWM or any of its associated persons. The *Code of Ethics* also requires that certain of AWM's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in AWM's *Code of Ethics*, none of AWM's *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of AWM's clients.

When AWM is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when AWM is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact AWM to request a copy of its *Code of Ethics*.**Review of Accounts and General Reports**

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AWM monitors assets as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis.

Clients are provided with transaction confirmation notices and regular summary account statements directly from the *Financial Institutions* for assets. Participants also receive a report from AWM that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance at least quarterly. Clients should compare the account statements they receive from the *Financial Institutions* with those they receive from AWM.

### **Client Referrals and Other Compensation**

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AWM is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, AWM is required to disclose any direct or indirect compensation that it provides for client referrals. AWM does not have any required disclosures to this Item.

### **Financial Information**

AWM does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, AWM is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. AWM has no disclosures pursuant to this Item.

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