

A N D O V E R  
E Q U I T Y  
A S S O C I A T E S

1/15/2014

Part 2A of Form ADV: Firm *Brochure*

**Item I**

Andover Equity Associates  
38 Essex Street  
Andover, MA 01810  
(978) 474-4747  
[Info@andoverequity.com](mailto:Info@andoverequity.com)

**CONTACTS**

Howard V. Redgate, Chairman  
Tamee H. Akstin, Operations Manager  
Leta R. McDonald, Portfolio Manager

**This brochure provides information about the qualifications and business practices of Andover Equity Associates. If you have questions about the contents of this brochure, please contact us at (978) 474-4747 and/or [takstin@andoverequity.com](mailto:takstin@andoverequity.com). The information in this brochure has not been approved or verified by the United States Security and Exchange Commission or by any state securities authority.**

**Additional Information about Andover Equity Associates also is available on the SEC website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).**

**Item 2 Material Changes**

We are amending our brochure to reflect material changes since our last filing of 3/4/2013. The material change is we have changed custodial banks from UBS Financial Services, Inc. to Charles Schwab & Co., Inc. (Item 12 page 5.) Assets under management (AUM) have increased by 22% to an access of \$160,000,000.

**Item 3 Table of Contents:**

• Advisory Business	page 2
• Fees and Compensation	page 2
• Performance-Based Fees and Side-By-Side Management	page 2
• Types of Clients	page 2
• Methods of Analysis, Investment Strategy and Risk of Loss	page 2
• Disciplinary Information	page 3
• Other Financial Industry Activities and Affiliations	page 3
• Code of Ethics	page 3
• Brokerage Practices	page 5
• Review of Accounts	page 5
• Client Referrals and Other Compensation	page 5
• Custody	page 5
• Investment Discretion	page 5
• Voting Client Securities	page 5
• Financial Information	page 5

**Item 4 Advisory Business**

Andover Equity Associates manages client assets to the individual need of clients. As such, we are designated as Investment Counsel. We understand that our business activity is inherently risky as we build client portfolios using a mix of cash equivalents, investment grade bonds including corporate, municipal, and treasury issues, as well as common stocks. Our firm was founded in 1991 and has been continuously owned by its founder and current Chairman. There is one minority share holder owning an aggregate of 10%.

We actively manage asset allocation within a mix of cash, fixed income and common stocks listed in the S&P 500. We concern ourselves with economic and business cycles as they impact asset prices. We attempt to earn stock market rates of return with less than market risks. We write an Investment Policy Statement for each of our clients identifying the mix and ranges of asset classes as well as prohibited asset classes. We publish quarterly reports within fifteen days of quarter end indicating changes in value both in dollars and percents for the quarter, year to date and since inception. All of our assets are managed on a fully discretionary basis within the confines of an Investment Policy Statement. As of this date we manage over \$160,000,000 in client assets with 70 client relationships. We provide limited consulting services concerning investment strategy and asset allocation for an hourly fee but this is not a meaningful part of our business.

**Item 5 Fees and Compensation**

Andover Equity Associates is a fee based asset manager. With very minor exceptions the custodian of our assets is the brokerage firm Charles Schwab Co. Inc. We have negotiated favorable commission rates for our client transactions and, since our investment philosophy is a long term buy and hold approach brokerage commissions are not a meaningful expense. We do not share in brokerage transactions nor do we require research or other services in exchange for our transaction flows. We are interested in prompt executions.

Our fees are negotiated to a maximum rate of 1.5% of assets under management. As of September 2010, some fees are payable quarterly in advance, most remain payable in arrears. With an exception, fees are deducted directly from client accounts. Fee advices are provided to the custodian and clients are simultaneously advised. Our advisory services can be canceled by written instruction. If notice of termination is delivered within the billing cycle, if applicable, pro rata fees will be reimbursed promptly, upon the receipt of termination advice.

We do not sell investment products including mutual funds, insurance, or asset backed assets and receive no compensation beyond what is described in our fee schedule.

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

Andover Equity Associates neither accept Performance Based fees nor participates in Side-By-Side management practices.

**Item 7 Types of Clients**

Andover Equity Associates provides investment advice to Individuals, Trusts, Corporations, Insurance Funds, Endowments, Foundations and other Charitable Not-For-Profit Organizations. Our minimum account opening requirement is \$500,000. Although we do not have a formal minimum maintenance requirement we encourage clients to seek investment alternatives if an account falls below \$200,000 in assets.

**Item 8 Methods of Analysis, Investment Strategy and Risk of Loss**

Andover Equity Associates invests a significant percentage of client assets in common stocks. Although the long term trend in common stock prices is favorable, this asset class offers no promise to return investor funds and stock prices are volatile, as such, although not desirable, the risk of loss is real and clients should be prepared and be able to accept loss of principal. We attempt to mitigate risk by a

series of strategies including; asset allocation, diversification within asset categories and maximum initial purchase weighting. Additionally, the initial purchase value of any *issue* cannot be greater than 10% of portfolio value and the investment in any *industry* cannot have an initial value in excess of 20%. Dividends are an important consideration in our investment analysis. We concern ourselves with the total return of fixed income assets as well as common stock, seeking a blended return to satisfy stated investment objectives. We do not engage in “trading” as a strategy. We are long term investors and among other things, we pay particular attention to business cycles. We believe successful investing, over time, involves active asset allocation. We believe price is a very important consideration in the stock selection process.

### **Item 9 Disciplinary Information**

Andover Equity Associates is not and has not been involved in any legal or disciplinary events.

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

Andover Equity Associates is not registered with any broker-dealer nor do we have any pending applications to do so. Although we have relationships with attorneys and certified public accountants, these are not material to our business. We do not recommend or select other investment advisors nor do we receive any compensation from any other financial industry or affiliation.

### **Item 11 Code of Business Conduct and Ethics**

Andover Equity Associates (the “Firm”) has a **fiduciary** obligation to its investment clients and the Firm seeks the highest standard of ethics and conduct in all of its business relationships. All records and reports created or maintained pursuant to this Code are intended solely for the internal use of the Firm and the confidential use of its clients.

Rule 204A-1 under the Investment Advisors Act of 1940...requires all investment advisors registered with the Securities and Exchange Commission (“SEC”) to adopt codes of ethics that set forth standards of conduct and require compliance with federal security laws. This code has been adopted by the Firm pursuant to paragraph (a) (1), (2), (4) and (5) of Rule 204A-1.

### **Policy Objectives**

The objective of this code is to provide standards of honest and ethical conduct and deter wrongdoing. Adoption of this code by the Firm upholds full, fair, accurate, timely and understandable disclosures in reports and documents which the Firm files with the SEC and other communications made by the Firm. The code promotes compliance with applicable governing rules and regulations, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.

### **Compliance with Laws, Rules and Regulations**

The Firm expects all of its employees to comply with all laws, rules and regulations applicable to its operation and business. Employees (officers, any person who provides advice on behalf of the Firm and employees who are subject to the Firms supervision and control) should seek guidance whenever they are in doubt as to the applicability of any law, rule or regulation regarding any contemplated course of action. If a course of action creates doubt on the part of an employee they always should seek guidance before action. Action always *follows* guidance at the Firm.

As a registered investment advisor, the Firm is subject to regulation by the SEC and compliance with federal, state and local laws. The Firm insists on strict compliance with the spirit and letter of these laws and regulations.

## **Conflicts of Interest**

All employees should be diligent in avoiding any conflict of interest with regard to the Firm's interest. A conflict of interest occurs with the interest of the Firm or its Investment Clients. A conflict of interest can arise when an employee or shareholder activities or contemplated activities interferes with the person's ability to perform his duties for the Firm or investment clients objectively and effectively. Conflicts of interest also arise when an employee or shareholder or members of the individual's family receives undisclosed or improper benefits as a result of the individual's position with the Firm. Any conflict of interest that arises in a specific situation or transaction must be **disclosed** by the individual **and resolved** before taking any action.

## **Confidentiality**

Employees shall be meticulous in maintaining the confidentiality of any information pertaining to the Firm or its investment clients, except when disclosure is authorized or legally mandated. Confidential information includes nonpublic information of the Firm that may be helpful to competitors, or otherwise harmful to the Firm, or its investment clients. The obligation of "preservation of confidentiality of information" continues after employment with the Firm ends.

## **Fair Dealing**

Employees should always deal fairly with investment clients, service providers and competitors, and shall not seek unfair advantage through improper concealment, abuse of improperly acquired confidential information or the misrepresentation of material facts. Employees are duty bound to disclose facts truthfully and clearly so that the receiving party can rely on the veracity of the Firm's material disclosures.

## **Gifts and Entertainment**

Gifts or entertainment should never be offered, given or accepted by an employee in connection with the Firm's business unless it is consistent with customary business practices, is not excessive in value and does not violate any laws or regulations. Employees may provide to, or accept from, any client or prospective client that does, or seeks to do, business with the Firm, a business entertainment such as dinner, tickets to theater or sporting events, golf outings etc. as long as the event is not extravagant or excessive or could construed to be a bribe, kickback, payoff or improper in any way.

## **Protection of Firm Assets**

It is the obligation of employees to protect the assets of the Firm and its proprietary information. Proprietary information includes intellectual property such as business marketing and databases, records, salary information unpublished financial information and reports. Unauthorized use or distribution of this information is prohibited.

## **Administration and Enforcement of the Code**

Each newly hired employee will be provided with a copy of the code. Each employee shall certify in writing that they have received this copy within thirty (30) days of hire. Further they will acknowledge they have read and understand all of the provisions of the code and they agree to comply with the applicable terms of the code. Employees will annually certify that they have read, understood and complied with the code, they made all of the reports required by the code and have not engaged in any prohibited conduct.

## **Item 12 Brokerage Practices**

A. Andover Equity Associates does not maintain custody of client assets. Client assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab, a FINRA-registered broker-dealer, member SBI, as the qualified custodian. Andover Equity Associates is independently owned and operated and not affiliated with Schwab. Schwab will hold client assets in a brokerage account and buy or sell securities when we instruct them to. While we recommend that client use Schwab as their custodian/broker, they will decide whether to do so and open their account with Schwab by entering into an account agreement directly with them. Even though client accounts are maintained at Schwab, Andover Equity Associates can still use other brokers to execute trades for client accounts.

We selected a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other providers and their services. We considered a wide range of factors, including, among others, these:

- combination of transaction execution services along with asset services (generally without a separate fee for custody)
- capability to execute, clear and settle trades (buy and sell securities for your account)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests etc.)
- competitiveness of price for those services (commission rates)
- reputation, financial strength and stability of the provider

On an exception basis, we have permitted direct brokerage; however, in this case, the client may or may not achieve favorable executions versus executions available in other client transactions.

B. It is the practice of Andover Equity Associates to often aggregate the purchase and sales of securities for our client accounts. Purchases cannot be aggregated when building an initial portfolio for a new client and are not aggregated as a result of an individual portfolio review.

## **Item 13 Review of Accounts**

Andover Equity Associates reviews client’s accounts on a quarterly basis. The Chairman or his designee performs these reviews. Portfolios are reviewed for, among other things, asset allocation, realized and unrealized gains and losses as well as market concentration.

Factors that may trigger a review other than the periodic review are, among other things, market conditions or changes in client’s stated needs as defined in the Investment Policy Statement including client’s request for additional funds.

An independent, third party publishes quarterly reports within fifteen days of quarter end indicating changes in value in both dollars and percents for the quarter, year to date and since inception.

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

Andover Equity Associates neither compensates others for referrals nor receives any economic benefits from others regarding referrals.

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors that have their clients maintain accounts at Schwab. The availability to us of Schwab’s products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

**Item 15 Custody**

Custody means, “holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them,” according to the Custody Rule. Because the Custody Rule is intended to deter potential advisor fraud such as misappropriation of assets, the custody definition is very broad.

Custody includes, among other things:

Any arrangement, including a general power of attorney, under which the advisor is authorized or permitted to withdraw client funds or securities maintained with a custodian upon the advisors instruction to the custodian.

Having authority to debit advisory fees meets the advisory definition, but if that is the only reason the advisor is deemed to have custody, then advisors registered with the SEC are directed to answer “no” to question 9 A(1)(2) Do you have *custody* of any advisory clients on form ADV I on file with the SEC.

Account statements from the custodians are sent directly to clients at least quarterly. An independent, third party firm issues quarterly reports. We recommend that clients compare the two on a quarterly basis for accuracy.

**Item 16 Investment Discretion**

Andover Equity Associates accepts discretionary authority to manage securities accounts on behalf of clients. Before we assume this authority, clients sign an agreement with Andover Equity Associates agreeing to this, as well as the completion of a Power of Attorney form with the custodian to allow executions/trades within their accounts held with custodians.

**Item 17 Voting Client Securities**

Andover Equity Associates does not have authority to vote client securities. This is documented in the agreement the client signs when hiring our services.

**Item 18 Financial Information**

Since Andover Equity Associates does not require or solicit prepayment of fees from a client six months or more in advance, as a private company, we are not required to submit a balance sheet and income statements.

Andover Equity Associates has neither been the subject of a bankruptcy petition at any time nor have we been the cause of another business having to petition for bankruptcy. The Firm and its Officers has not been the subject of any investigation concerning financial indiscretion.