

# **Disclosure Brochure**

## **Hammerman & Strickland, LLC**

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March 25, 2011

**This brochure provides information about the qualifications and business practices of Hammerman & Strickland, LLC. If you have any questions about the contents of this brochure, please contact us at (800) 468-1038. 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 Hammerman & Strickland, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Hammerman & Strickland, LLC is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

## Material Changes

On July 28, 2010, the United States 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 25, 2011 is a new document and replaces our Form ADV Part II and Schedule F dated August 27, 2009. 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 page will summarize material changes made to our brochure. 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. In the future, we will send you a summary of material changes to our brochure by April 30 of each year. We will also offer to send you a free copy of our brochure. If there is any material information that could affect our relationship with you, even if it is not in our brochure, we will send it to you promptly.

Contact Mike Strickland, Chief Compliance Officer at [mike@hammerman-strickland.com](mailto:mike@hammerman-strickland.com) or (800) 468-1038 for a copy.

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## **Advisory Business**

Hammerman & Strickland, LLC, is the successor organization to Hammerman & Strickland, a partnership, established in 1993. Howard A. Hammerman, Operating Manager and Member, and James M. Strickland, Secretary/Treasurer/Chief Compliance Officer and Member, own Hammerman & Strickland, LLC.

At Hammerman & Strickland, LLC, our objective is to develop customized portfolios that meet your goals. We implement strategies for asset allocation and selection of specific investments. We provide customized portfolio recommendations based your investment parameters, time horizon, risk tolerance and return objectives. The customized portfolios may include stocks, bonds, Exchange Traded Funds (ETFs), no-load mutual funds, Certificates of Deposit, annuities and other securities . We will advise you on any type of investment in your portfolio at the inception of our relationship based on our understanding of your particular investment needs. At your option, you may impose specified investment objectives and guidelines and/or conditions. For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio or prohibit transactions in the securities of a specific industry or company. We ask that you detail in writing any specific requirements before engaging our services.

We offer an optional service called the “Equity Trading Platform.” The Equity Trading Platform provides for intensely managed purchases and sales primarily of high quality, dividend-producing stocks subject to strict procedures for sales. You may use this service only if we believe it is appropriate, based on your investment parameters, time horizon, risk tolerance and return objectives. If you choose this service, you may opt out at any time by sending us a written notice.

Ongoing, we manage your accounts on a discretionary basis. In fact, as of March 25, 2011, we managed \$102,800,000 in client assets on a discretionary basis. We generally do not manage accounts on a non-discretionary basis.

We also provide a full range of planning services including tax, insurance, real estate and other related matters. We offer personal consultations where you may want advice on a particular issue in the areas of finance and investments.

If one of your accounts is a retirement plan subject to Employee Retirement Income Securities Act of 1974 (“ERISA”), we ask that you appoint Hammerman & Strickland, LLC as “Investment Manager” for purposes of ERISA. We will need to have copies of all documents governing the plan and showing your authority to retain Hammerman & Strickland, LLC. In the future, you will send us any amendments to your ERISA plan. If an amendment affects our rights or obligations, the amendment will be binding on Hammerman & Strickland, LLC only when we have sent you written notice of our agreement to the amendment. We do not provide advice for assets outside of the custodial or trust account over which we have discretion. We will not vote proxies for securities held in the plan.

## Fees and Compensation

### *Management Fees*

Management fees are based on the value of assets managed and fees are calculated as a percentage of assets under management. The quarterly fees are:

<u>Assets Under Management</u>	<u>Quarterly Fee</u>
Quarterly Base Fee	\$200.00 plus
\$0 to \$500,000	0.25%
\$500,001 to \$1,000,000	\$1,250.00 + 0.20% over \$500,000
\$1,000,001 and greater	\$2,250.00 + 0.10% over \$1,000,000
Equity Trading Platform	\$500.00

While we do not negotiate fees, discounts may be offered to certain clients based on the size of the portfolio managed, longevity as a client with our firm, and/or reduced services we are to provide. Certain clients with small accounts may be charged a fixed, minimum fee. We may aggregate assets for household totals and other circumstances. While we believe that our fees are competitive, you may obtain lower fees for comparable services from other sources.

### *Fee Billing*

Quarterly, we will send you an invoice for our fees. We charge fees quarterly in advance based on your account value on the last day of the previous calendar quarter. The initial fee is based on your account value as of the date you sign our Management Agreement. If you sign the Management Agreement at any time other than on the first day of a calendar quarter, the initial fee is pro-rated based on the number of days from the first day of management to the end of the calendar quarter. The initial fee is due and payable when you sign the Management Agreement. Subsequent fees are calculated as of the first day of each calendar quarter.

No fees will be charged on additions to your account during the calendar quarter and no fee refunds will be given for withdrawals from your account made during the calendar quarter. You are responsible for all expenses of your account in addition to custodian fees and brokerage commissions.

If you have more than one account and/or family-related accounts, you may arrange for the fee to be deducted from just one account for all accounts as long as there are no conflicts with ERISA requirements.

You will authorize your custodian/brokerage firm to pay the management fee by debiting your account each quarter based on our invoice. Fees will be taken first from free credit balances or from any money market fund balances. If your account does not have sufficient cash or money market fund balances to cover the fees, a portion of your account assets will be liquidated to cover the fee. You may make payment in an alternative manner acceptable to Hammerman & Strickland, LLC. Your account's custodian or broker/dealer will reflect the amount of the deduction on your account statement.

There are no charges for financial planning services since these services are incidental to investment management services.

### *Other Charges*

Our management fees are separate from charges assessed by third parties, such as broker/dealers, custodians, mutual fund companies, etc. You will incur brokerage and other transaction costs charged by broker/dealers executing the transactions and custodians maintaining your assets. These costs are in addition to our management fees and are non-negotiable. For information about the factors we consider in selecting and/or recommending brokerage firms, see “*Brokerage Practices*” below.

In the case of money market funds and mutual funds, the mutual fund charges an advisory fee in addition to the management fee you pay to us. Some funds assess administrative fees and 12b-1 fees. These funds’ advisory, administrative, and 12b-1 fees are described in the funds’ prospectuses. Likewise, when investing in ETFs, you will bear the ETFs’ proportionate share of fees and expenses as an investor in the ETF. You do not pay these fees directly; rather these fees are deducted from the mutual fund or ETFs assets. These deductions affect the performance of the investment. One of the factors we consider in the selection of investments for client portfolios is fees and expenses. We attempt to minimize them consistent with good performance.

Hammerman & Strickland, LLC is affiliated with Hammerman & Strickland Securities, LLC, a broker/dealer and member of FINRA. Hammerman & Strickland Securities, LLC may receive commissions and/or services fees from variable or fixed annuities or life insurance that you purchase through Hammerman & Strickland Securities, LLC. You have the option to purchase these products through agents who are not affiliated with us. However, if you purchase them through us, our management fees are waived because we are being reimbursed by the insurance company through asset-based service fees. We will explain to you the reasons for our recommendation and provide you with details regarding our compensation before you purchase these products. See “*Other Financial Industry Activities and Affiliations*” below for more details.

### *Terminating Advisory Services*

You have the right to terminate our advisory services without penalty within five (5) business days after entering into the Management Agreement. Termination will not affect the validity, liability and obligations of the Management Agreement for actions taken before the termination.

Our advisory services continue until terminated in writing by you or us. On the effective date of termination any fees due to you will be refunded promptly on a prorated share, based on the remaining days of the quarter that have been prepaid. We will discontinue all services and responsibilities to your account. You release Hammerman & Strickland, LLC from all responsibilities as of the effective date of termination. We will instruct your brokerage firm to deliver securities and funds held in the account as instructed by you. You may request that your account(s) be liquidated upon termination of the Management Agreement, but this request must be in writing. Liquidating your account(s) may result in a

taxable capital gain (or loss) and may incur additional trading costs. Please seek independent tax advice before deciding to liquidate your account(s). Hammerman & Strickland, LLC will have no responsibility for the tax consequences or trading costs resulting from the liquidation of your account(s).

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

We do not accept performance-based fees – that is, fees based on a share of capital gains or appreciation of the assets of a client.

## **Types of Clients**

We provide our advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, and corporations. The minimum value for a managed account is \$250,000. However, accounts less than \$250,000 will be considered on an individual basis, when appropriate.

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

Our investment methodology is based on modern portfolio theory. We believe that our clients are risk-averse and that markets are basically efficient. Our focus considers portfolios as a whole, with a view to total risk-reward parameters. We want portfolios to include investments across multiple asset classes while attempting to obtain a higher risk-adjusted rate of return.

We apply a combination of fundamental research and technical analysis to stocks as well as other securities, such as ETFs, bonds, and no-load mutual funds. Generally, we recommend long-term investment strategies requiring a minimum of a three to five year time horizon and holding period. We rebalance portfolios periodically to maintain their asset classifications.

We use analysis and research software, such as Morningstar Reports, Standard & Poor's Reports, Argus Ratings, Credit Suisse Research, Schwab Equity Ratings, Reuters, and numerous other financial sources and publications.

Investing in securities involves risk of loss that you should be prepared to bear. Investment values will fluctuate, are subject to market volatility, and may be worth more or less than original cost. All securities with perhaps the exception of U.S. Treasury bills may involve the loss of principal. In addition, while we believe our methodology and investment strategy will be profitable, there is no assurance that this will always be the case. Investment returns will fluctuate and investments are subject to market volatility. At any point, your portfolio may be worth more than or less than its original cost.

All securities have some risks in common. General risks can be categorized as market risk, company risk, and business risk. Risks can be further categorized, such as interest rate risk or sector risk. Specific types of securities may have more or less of each type of risk. For example, usually fixed income securities are effected by interest rate risk, credit risk, call (timing) risk, event risk, inflation risk, legal risk, sector risk, etc. as well as risk from external factors. An ETF investing in securities of an underlying index of fixed income securities will have similar risks as well as other risks, such as investment

management strategy risk. Each asset class has its own risks associated with it and each portfolio has different risk and return characteristics.

We attempt to mitigate these risks through diversification across multiple asset classes, managing accounts with discipline and resisting the temptation to react to short-term market fluctuations. We encourage you to discuss any concerns you may have with us.

### **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 Hammerman & Strickland, LLC or the integrity of our management. Hammerman & Strickland, LLC or Hammerman & Strickland Securities, LLC have never had a complaint, arbitration or lawsuit, regulatory action, or criminal proceeding filed against them.

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

Hammerman & Strickland, LLC is affiliated with Hammerman & Strickland Securities, LLC, a broker-dealer and member of FINRA. Howard Hammerman is a licensed insurance agent. Hammerman & Strickland Securities, LLC and Mr. Hammerman earn commissions and other revenue from the sale of securities and insurance products. We may refer you to our broker-dealer when we recommend variable or fixed annuities or life insurance products. Even though this may create a conflict for us, we believe our broker-dealer complements and enhances our advisory services. For example, when you purchase a product through Hammerman & Strickland Securities, LLC, we have conducted a thorough review of the specific product recommended. We conduct a “reasonable-basis suitability determination.” This determination includes examining the product’s reputation, financial and management strength as well as the product’s benefits and costs. If you purchase the product through another broker/dealer or insurance agency, we would not necessarily be able to advise you of the product’s qualities and shortcomings. In addition, if you purchase the product through our broker/dealer, we are able to monitor your investment and provide ongoing asset management services at no fee.

Before you purchase these products through Hammerman & Strickland Securities, LLC, we will explain to you the reasons for our recommendation and provide you with details regarding our broker/dealer’s compensation.

### **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Hammerman & Strickland, LLC has adopted a formal Code of Ethics. This Code of Ethics includes requirements to make sure that we meet our fiduciary responsibilities:

1. We will put your interests before our own interests.
2. You have the unrestricted right to specify your investment objectives, guidelines, and/or conditions on the overall management of your account.



3. We will not make investment decisions for our personal portfolio(s) if the decision is based on information that is not also available to the investing public.
4. We will not participate in private placements or initial public offerings (IPO's) that may effect your investments without disclosure to you.
5. We will comply with all applicable federal and state regulations governing registered investment advisers.

The full text of our Code of Ethics is available to you upon request.

On occasion, we may buy or sell securities that we recommend to clients or may recommend securities transactions in which we have some financial interest. This practice would create a conflict of interest if the transactions were structured to trade on the market impact caused by recommendations made to our clients. Our Chief Compliance Officer reviews our personal transactions quarterly. Our Code of Ethics requires pre-approval of personal transactions in some cases. We believe that we have adopted sufficient controls so that our personal transactions are consistent with advice given to clients.

## **Brokerage Practices**

### *Selection of Brokerage and Custodial Services*

Hammerman & Strickland, LLC requires that you open your brokerage account with the Schwab Institutional, a division of Charles Schwab & Co., Inc. (collectively called "Schwab"). Not all advisers require their clients to use a specified custodian/brokerage firm.

Schwab is a registered broker-dealer and member of SIPC. Schwab provides Hammerman & Strickland, LLC with access to its trading and custody services, which may be generally available to independent investment advisors on an unsolicited basis, at no charge. We are not required to commit any specific amount of business (assets in custody or trading) to Schwab. Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that may usually require a significantly higher minimum initial investment. Schwab generally does not charge separately for custody. However, Schwab is compensated through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

There may be brokerage and execution services available elsewhere at lower cost. However, we believe Schwab's commissions and other charges to be reasonable. In addition, we believe that Schwab achieves favorable execution prices on its transactions. We do not know if their execution prices are the most favorable in the industry. Unfavorable transaction execution could be costly to you.

There are other reasons to recommend Schwab. For example, they provide research and other value-added services. These services are provided to all clients of Hammerman & Strickland, LLC, not just those who are required to pay for these services.

We try to act in our clients' best interests at all times. Our suggestion that you maintain your accounts at Schwab is based in part on the benefit to us of the availability of these products and services and not solely on the nature, cost or quality of custody and brokerage services provided, which may create a potential conflict of interest.

#### ***Aggregation of Orders***

If we decide to purchase or sell the same securities for several clients at approximately the same time, we might combine ("aggregate" or "batch") these orders. By aggregating orders of the same securities, we may be able to obtain a better overall execution price. We may be able to obtain lower transaction costs that might or might not have been obtained had multiple orders been placed independently. When aggregating, Schwab generally averages price and transaction costs, allocating among clients as we have told them to do. We receive no additional compensation or remuneration resulting from the aggregation of client trades.

#### **Review of Accounts**

We continually review your account(s) through on-line access to Schwab and the use of the Morningstar (formerly dbCams) database. Monthly review of accounts by both principals coincide with monthly Schwab statements. At least annually, and more frequently when required by market extremes, we review all accounts to determine if rebalancing is necessary. Rebalancing involves reallocating assets to original asset targets.

Reports are provided monthly by Charles Schwab and quarterly by insurance companies and mutual fund companies. Hammerman & Strickland, LLC provides extensive written quarterly reports and other reports upon major rebalancing of accounts.

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

Hammerman & Strickland, LLC does not compensate any person for client referrals.

Any economic benefits that we may receive from non-clients are described above in "*Other Financial Industry Activities and Affiliations*" and "*Brokerage Practices*."

#### **Custody**

We do not take custody of your funds and securities. All of your funds and securities are held in your name by Schwab, whose address is 211 Main Street, San Francisco, CA 94105. We do not accept funds and securities on your behalf, nor do we issue instructions to Schwab for withdrawals of funds or securities without a written instruction from you for each withdrawal. You will not give us authority to withdraw securities or funds (other than advisory fees) from your account. The only checks payable to Hammerman & Strickland, LLC that we are permitted to accept are those payable for advisory fees.

#### **Investment Discretion**

You will grant Hammerman & Strickland, LLC discretion over the selection and amount of securities to be bought or sold. This investment authority may be subject to specified investment objectives and

guidelines and/or conditions imposed by you. For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio, or establish restrictions or prohibitions of transactions in the securities of a specific industry. Please detail any exceptions in writing prior to engaging our services.

### **Voting Client Securities**

We do not accept authority to vote securities on your behalf. Schwab sends proxies or other solicitations about your securities directly to you.

### **Financial Information**

Hammerman & Strickland, LLC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients nor has it been the subject of a bankruptcy proceeding.

### **Requirements for State-Registered Advisers**

This Item does not apply to Hammerman & Strickland, LLC.