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# Form ADV Part 2 Client Brochure

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## Form ADV Part 2B

**Alkanza Inc.**

425 Broadway Street, Redwood City, CA, 94063

(650) 670 2622

3/30/2016

This brochure provides information about the qualifications and business practices of Alkanza Inc. (hereinafter "Alkanza"), a registered investment adviser. If you have any questions about the contents of this brochure, please contact us at [info@alkanza.us](mailto:info@alkanza.us) or at (650) 670 2622. 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 Alkanza Inc. also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## Item 2: Material Changes



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## **Item 4: Advisory Business**

### **A. General Description of Alkanza**

Alkanza Inc. is a software based investment advisor registered with the U.S. Securities and Exchange Commission. Alkanza was founded in 2014 and its principal owner is Andres Villaquiran. The firm offers portfolio optimization services to its clients and manages their investment accounts through the website [www.alkanza.us](http://www.alkanza.us). Additional information about Alkanza's ownership structure and directors can be found in Schedule A of Part 1A of Alkanza's ADV form.

### **B. Advisory Services**

Alkanza offers investment management services through proprietary, automated computer algorithms based on a modified mean variance optimization process. Our software is the result of several years of Mathematics PHD research as well as experience in the capital markets.

Through Alkanza's web based platform, our Client's enter their financial goals and Alkanza proposes an optimal portfolio to reach those goals. Once a client accepts the proposed portfolio, Alkanza will automatically implement the investment strategies. In order to obtain an optimal portfolio aligned with our client's goals, Alkanza has selected asset classes as well as ETFs that represent each asset class. Using mean variance optimization the maximum return portfolio for the desired risk is obtained.

As part of the enrollment process, the client authorizes Alkanza to place trades on their behalf using the portfolio recommendations as well as to perform ongoing portfolio rebalancing based on changes generated by our proprietary algorithms. Clients have an opt-out alternative for any given rebalancing to be performed.

### **C. Tailored Services**

Alkanza tailors each client's portfolio to their individual financial goals. Alkanza requires each client to define their future financial goals, investment horizon as well as some measures of risk tolerance in order to adequately use the developed algorithms.

Please note that clients are not able to specify assets in which investments can be made. Also, the accuracy and quality of the information provided by our clients has a direct impact on the applicability of Alkanza's recommendations.

### **D. Wrap Fee Programs**

Alkanza does not have, sponsor or participates in any wrap fee programs.

### **E. Assets Under Mangement**

As of close on March 30, 2016, Alkanza manages US 51,224,236



## **Item 5: Fees and Compensation**

### **A. Advisory Fees**

Alkanza is compensated for its advisory services 7.5% of the capital gains of the client's portfolio. If the client's portfolio loses value, Alkanza will credit 7.5% of the lost value to the client account. Such credit will only be available to pay for future fees.

As an example, for a portfolio that has capital gains of \$1,000 on a given month Alkanza will charge \$75 on the immediately following month. Fees will be automatically discounted from the client's designated brokerage account, given that the broker offers that service to Alkanza. If there is a case where the fees cannot be discounted by the broker in behalf of Alkanza, Alkanza will provide the client an electronic invoice with instructions to setup an alternative payment method.

Our fee is unique in the Asset Management industry and reflects our belief that the interests of client and advisor should be aligned. That is why we only charge a client when their portfolio makes money, and pay a client when their portfolio loses value with credit for future fees

Alkanza does not charge fees in advance. Fees are calculated on a monthly basis from the client's assets under management the first day of each month and are deducted from the client's account no later than on the tenth day of the following month.

Alkanza reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for client accounts for any period of time determined.

### **B. Other Fees**

Other than the advisory fee described previously, neither Alkanza nor any of its employees receive or accept any compensation, direct or indirect, related to investments sold or purchased for client accounts.

However, due to the nature of the securities or products purchased or sold, clients may also pay other fees or expenses to third parties. The issuers of securities such as ETFs or other similar financial products may charge product fees that affect clients. An ETF typically includes embedded expenses and other fees may include management, brokerage, legal, accounting or custodian fees. Alkanza does not benefit directly or indirectly from any such fees.

Alkanza discloses each ETF's current information on our website.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

Alkanza does not use traditional performance-based fees. Our advisory fees are described in item 5.

## **Item 7: Types of Clients**

Alkanza offers its advisory services to individuals, other registered investment advisors and pooled investment vehicles other than investment companies as defined by the Investment Company Act of



1940. Alkanza has a minimum investment amount of \$5,000. However some brokers require larger minimum investment amounts in order to open and maintain an account.

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

Alkanza has implemented a modified mean variance optimization process which seeks to maximize a portfolio's expected return for a given amount of desired risk or equivalently minimize risk for a given expected return. The optimization process results in the efficient asset allocation for a specific risk and return combination.

Alkanza has defined a broad scope of asset classes taking into account different regions and subcategories, for each asset class a selection of ETFs were chosen. ETFs are Alkanza's main investment instrument, due to its lower costs, passive management strategies and availability. ETFs were chosen bearing in mind their main characteristics which include: Efficiency measured by how well they replicate the index followed, asset class and region, liquidity, expense ratio and assets under management. Alkanza periodically evaluates ETFs to maintain the available investment alternatives up to date.

Alkanza's platform enables clients to accurately provide their long term goals as well as quantify their risk tolerance, as the first step to propose and establish the efficient investment portfolio. Once the objective return is acquired, Alkanza's sophisticated algorithms provide a specific portfolio allocation proposal which can be modified by changing the client's goals. Once the portfolio is approved, Alkanza executes the investments and periodically rebalances each client's portfolio in order to maintain an efficient portfolio in accordance to each client's goals.

### *Risk of Loss*

Alkanza cannot guarantee the level of performance or that any client will avoid a loss of assets. Investing in any type of securities involves the possibility of financial loss that clients should be prepared to bear. Our recommendations are highly reliant on the accuracy of the information provided to Alkanza by each client.

The following risks should be taken into account by clients to evaluate Alkanza's services. Each one may affect the potential gains or losses on a portfolio and should be considered as possibilities, with regard to the actual probability of occurring and the effect on a portfolio if there is in fact an occurrence.

**Market Risk:** The price of any security is subject to changes due to reasons that include, but are not limited to, macroeconomic factors, market sentiment, economic developments, interest rates, inflation, regulatory changes and political, demographic and social events. Alkanza's ETFs selection includes exposure to foreign investments, which implies the possible exposure to currency and sovereign risk in foreign countries. Alkanza provides risk measures for market risk for each client's portfolios in order to allow our clients a risk assessment.



**Advisory Risk:** Alkanza does not guarantee that the investment decisions provided by our software will necessarily produce the expected results, resulting in a client not being able to achieve the expected objectives.

**Liquidity Risk:** Lack of liquidity on a particular security on a specific market moment may result in the possibility of not being able to sell a security or selling with a significant discount. Alkanza selects the possible ETFs for a portfolio taking into account the liquidity and size of each security, it is possible to encounter moments of illiquid markets.

**Credit Risk:** Clients are exposed to the risk that financial intermediaries or security issuers may experience financial difficulties that may include default, bankruptcy, insolvency or other credit events, any of which may affect the value of client's portfolios. Alkanza limits credit risk by using ETFs, which have certain legal protections such as shareholders having liquidation priority versus the issuer.

**Tax Risk:** Government legislation and tax codes and changes that can be introduced by governments may affect the performance of a client's portfolio, either directly or indirectly. Alkanza does not deliver financial or tax advisory.

#### **Item 9: Disciplinary Information**

Alkanza and its employees do not have any legal, financial, regulatory, or any other disciplinary item to report to any client.

- A. There have been no criminal or civil actions in a domestic, foreign or military court of competent jurisdiction involving either Alkanza or a management person.
- B. There have been no administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority involving either Alkanza or a management person.
- C. There have been no self-regulatory organization (SRO) proceedings involving either Alkanza or a management person.

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

- A. Neither Alkanza nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither Alkanza nor any of its management persons are registered or have pending registrations as a futures commission merchant, commodity pool operator, a commodity-trading adviser, or as an associated person of the foregoing list.
- C. Neither Alkanza nor its management persons have relationships with other entities in the financial services industry that materially affect Alkanza's advisory business or its clients.
- D. Alkanza does not recommend or select other investment advisers.



**Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Alkanza has established a code of ethics that requires all of its employees to behave with the highest standard of honest conduct and business ethics placing client's interest ahead of its own and requiring careful management of any perceived or actual conflict of interest that may arise in relation to its advisory services.

Alkanza's employees may invest in the same securities that the company recommends to our clients. Alkanza's code of ethics is available to clients upon request.

**Item 12: Brokerage Practices**

Alkanza establishes custodial and brokerage agreements with "qualified custodians", as defined by the SEC, to establish our clients agreements. Our selection of brokers is based on the management platforms offered by registered brokers, which must enable Alkanza to execute trades on behalf of our clients, financial strength and reputation, trading platform, experience, costs, asset availability as well as trade accuracy and confirmation.

**Item 13: Review of Accounts**

Alkanza reviews each client's account on a daily basis through automated algorithms which seek to ensure that each client's portfolio is still efficient and maintains the client's goals. When a client's portfolio requires rebalancing, a notification is sent and the client has an opt-out alternative if they do not wish for the rebalancing to be executed. Factors that result in rebalancing may include, but are not limited to, market movements, significant changes in some assets that a client holds or changes in a client's goals.

Alkanza provides permanent access to the client's account which reflects the value of the portfolio. The official value of the portfolio is provided by the client's broker dealer.

When client's place deposits on the account, these will be invested on the next rebalancing trigger when deposits are fewer than US 5.000. Client's that wish to withdraw funds, must communicate the withdrawal to Alkanza so that assets are sold and the client can make the withdrawal from their broker dealer.

**Item 14 Client Referrals and Other Compensation**

Alkanza may perform advertising campaigns to attract clients to open accounts on the site. These campaigns may include promotions such as additional account services or products, more favorable fee arrangements or waived advisory fees and reward programs for existing clients who refer new clients to the service. These promotions may cause a conflict of interest if clients refer the service based on the potential benefits these could imply for the client referring the service.





Alkanza may also enter into agreements with third parties who are in a position to refer clients to Alkanza who will receive a pre-determined fee or compensation. If Alkanza determines in the future to pay or compensate a third-party for client referrals, this practice will be disclosed in writing to the client and comply with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, to the extent required by applicable law.

#### **Item 15 Custody**

Alkanza does not maintain custody of any client funds or securities. Assets are held in the name of each client in the custody of their service broker, which is a qualified custodian as defined by the SEC. Each client will receive Account information, including trade confirmations and monthly account statements, directly from their Broker, and should carefully reconcile the information provided by the Broker with the information provided on Alkanza's statements.

#### **Item 16 Investment Discretion**

Alkanza requires a limited power of attorney to assume full discretionary trading and investment authority over the client's assets held with the Broker. The client completes all documentation required in the enrollment process.

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

Alkanza does not have the authority to vote client securities.

#### **Item 18 Financial Information**

Alkanza does not require or solicit the prepayment of any advisory fees, and does not have any adverse financial condition that is reasonably likely to impair our ability to continuously meet our contractual commitments to our clients.



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**Andrés Villaquirán, born 1975**

Education

BS, Economics, Massachusetts Institute of Technology, 1997

BS, Mechanical Engineering, Massachusetts Institute of Technology, 1997

BS, Management Science, Massachusetts Institute of Technology, 1997

MS, Statistics and Operations Research with concentration in Financial Engineering, New York University, 2003

MS, Financial Mathematics, Stanford University, 2010

PhD, Statistics, Stanford University, 2010

Business Experience

1997 – 2000 Foreign Exchange Options, JP Morgan & Co.

2000 – 2002 VP Emerging Markets, Credit Suisse First Boston

2003 – 2004 Business School Professor, Universidad de los Andes

2004 – Present Managing Partner, Risk Management Insight

2010 – Present Managing Partner, Capital Management Insight

2014 – 2015 Managing Partner, Alkanza

2015 – Present CEO, Alkanza

Disciplinary Information

None

Other Business Activity

None

Additional Compensation

None

Supervision

Dr. Villaquirán is a managing member, and as such is not subject to additional supervision

**Fabio Robayo, born 1987**

Education

BS, Mathematics, Universidad de los Andes, 2009

MS, Finance, Massachusetts Institute of Technology, 2014



Business Experience

2010 – Present Head of Research and Financial Engineering, Risk Management Insight

2010 – Present Investment Committee Member and Trader, Capital Management Insight

2011 – 2012 Trader, Interbolsa

2014 – Present Head of Research and Financial Engineering / Chief Compliance Officer, Alkanza

Disciplinary Information

None

Other Business Activity

None

Additional Compensation

None

Supervision

Mr. Robayo is supervised by Dr. Villaquirán.

