

# **Meritam Investment Advisors, Inc.**

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January 26, 2016

## **Form ADV Part 2A Wrap Fee Program Brochure**

**This brochure provides information about the qualifications and business practices of Meritam Investment Advisors, Inc., a registered investment advisor. Registration does not imply a certain level of skill or training.**

**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.**

**If you have any questions about the contents of this brochure, please contact us at 612-888-6363 and/or [info@meritam.org](mailto:info@meritam.org). Additional information about Meritam also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

We are a newly registered investment adviser; registered with the Securities and Exchange Commission in August, 2015. We have no material changes to report.

## Item 3 Table of Contents

Item 1 Cover Page	Page 1
Item 2 Summary of Material Changes	Page 2
Item 3 Table of Contents	Page 3
Item 4 Services, Fees, and Compensation	Page 4
Item 5 Account Requirements and Types of Clients	Page 7
Item 6 Portfolio Manager Selection and Evaluation	Page 8
Item 7 Client Information Provided to Portfolio Managers	Page 9
Item 8 Client Contact with Portfolio Managers	Page 10
Item 9 Additional Information	Page 10
Item 10 Requirements for State-Registered Advisers	Page 11

## Item 4 Services, Fees, and Compensation

### Description of Firm

Meritam is registered investment adviser providing automated management services for nonprofits. We are based in New York, NY and organized as a corporation under the laws of the State of New York. We have been providing investment advisory services since 10/01/2015. We are primarily owned by Sharon J. Liebowitz.

As used in this brochure, the words "we," "our," and "us" refer to Meritam and the words "you," "your," and "client" refer to you as a client or prospective client of our firm. Also, you may see the term Associated Person in this brochure. Our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

### Client Investment Process

Meritam provides a software based investment advisory service for nonprofits, based on modern portfolio theory. The service recommends target asset allocation, along with specific passive funds (Index based ETFs or mutual funds) to implement the target allocation. Each customized portfolio is designed to be consistent with client's investment objectives and risk tolerances. The company creates an investment strategy by seeking to identify: 1) the optimal asset classes in which to invest, 2) the most efficient ETFs or other investments to represent each of those asset classes, 3) the ideal mix of asset classes based on the Client's specific risk tolerance, and 4) the most appropriate time to rebalance the Client's portfolio. The approach allows clients to capitalize on the low fees offered by passive products, compared to the majority of active and alternative managers. Investment advice is limited to indexed based products.

Meritam's client assets are managed on a discretionary basis as part of its Wrap Fee Program ("Program"). A wrap account is a professionally managed investment plan in which all expenses, including brokerage commissions, management fees, and administrative costs, are "wrapped" into a single charge. You are not charged separate fees for the respective components of the total services. We receive a portion of the wrap fee for our services. The overall cost you will incur if you participate in our wrap fee program may be higher or lower than you might incur by separately purchasing the types of securities available in the Program.

Prior to becoming a client under the Program, you will be required to enter into a separate written agreement with us that sets forth the terms and conditions of the engagement and describes the scope of the services to be provided, and the fees to be paid.

If you participate in our discretionary portfolio management services, we require you to grant us discretionary authority to manage your account. Subject to a grant of discretionary authorization, we have the authority and responsibility to formulate investment strategies on your behalf. Discretionary authorization will allow us to determine the specific securities, and the amount of securities, to be purchased or sold for your account without obtaining your approval prior to each transaction. We will also have discretion over the broker or dealer to be used for securities transactions in your account. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm, a power of attorney, or trading authorization forms.

Assets for program accounts are held at Interactive Broker Groups, Inc., ("Interactive Broker") as custodian. Interactive Broker also acts as executing broker/dealer for transactions placed in Program accounts, and provides other administrative services as described throughout this brochure. To compare the cost of the wrap fee program with non-wrap fee portfolio management services, you

should consider the frequency of the trading activities associated with our investment strategies and the brokerage commission charged by Interactive Broker and the advisory fees charged by other investment advisers.

### **Tailored Services and Investment Restrictions**

Meritam provides a software based investment advisory service for nonprofits, based on modern portfolio theory. The service recommends target asset allocation, along with specific passive funds (Index based ETFs or mutual funds) to implement the target allocation. Each customized portfolio is designed to be consistent with client's investment objectives and risk tolerances. The company creates an investment strategy by seeking to identify: 1) the optimal asset classes in which to invest, 2) the most efficient ETFs or other investments to represent each of those asset classes, 3) the ideal mix of asset classes based on the Client's specific risk tolerance, and 4) the most appropriate time to rebalance the Client's portfolio. The approach allows clients to capitalize on the low fees offered by passive products, compared to the majority of active and alternative managers. Investment advice is limited to indexed based products.

Meritam tailors its service to the needs of each client. The service will provide target asset allocations based on the organization's responses to an electronic questionnaire. This customized recommendation will be based on the institution's stated risk appetites, target returns and long-term financial goals. If required, special considerations can be made, e.g., spending policy, liquidity needs, etc. Client restrictions on investing in certain securities are not possible at this point as all investments are made via indexed products. The

### **Program Fee**

Meritam's client assets are managed as part of its Wrap Fee Program. A wrap account is a professionally managed investment plan in which all expenses, including brokerage commissions, management fees, and administrative costs, are "wrapped" into a single charge. The program provides clients with investment guidance, portfolio management, and brokerage services for one comprehensive fee based on a percentage of individual account assets.

Typically investment advisors charge a fee that covers managing a portfolio, but not the broker-dealer expenses related to executing trades and keeping custody of client assets. In the typical arrangement, those trading expenses are an additional charge to the client. A wrap fee program is a common alternative to a typical advisory fee structure that provides clients with advisory and brokerage services for one all-inclusive management fee with no additional account activity charges. Meritam is organized as a wrap fee program because it best allows us to achieve our mission of simplifying investing for our clients.

Meritam is compensated for its advisory services by charging a fee based on the net market value of a Client's Account. Meritam reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for certain Client Accounts for any period of time determined. In addition, Meritam may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients.

Meritam's software based financial advisor service charges an annualized fee of 0.25% on a Client's assets under management. For accounts below \$1,000,000 we may also charge a one-time set up fee of \$500. At our sole discretion the set up fee may be negotiable or waived.

Annual fees are charged on a monthly basis as explained below. Fees are calculated on a continuous basis and deducted from Client Accounts each month as follows:

Each month client is charged an advisory fee equal to  $\frac{1}{365}$  ( $\frac{1}{366}$  on a leap year) of the annual fee rate multiplied by the average net market value of invested assets as of close of the market for each day in the month. This is summed by the number of days in a month your money was with Meritam, to arrive at the fee for the month. The advisory fee is deducted from Client Accounts on the first business day of the following month.

### **Withdrawal of Assets**

You may withdraw account assets on notice to our firm, and subject to the usual and customary securities settlement procedures. However, we design our portfolios as long-term investments and asset withdrawals may impair the achievement of your specific investment objectives.

### **Payment of Fees**

We will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy.

### **Termination of Advisory Relationship**

You may terminate the wrap fee program agreement upon 30 days written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the wrap fee program agreement, which means you will incur advisory fees only in proportion to the number of days in the month for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

Upon termination of accounts held at Interactive Broker they will deliver securities and funds held in the account per your instructions unless you request that the account be liquidated. After the wrap fee program agreement has been terminated, transactions are processed at the prevailing brokerage rates/fees. You become responsible for monitoring your own assets and our firm has no further obligation to act upon or to provide advice with respect to those assets.

### **Other Fees**

Meritam is a "fee only" investment advisor, and other than fees described above, neither the firm nor its employees receive or accept any direct or indirect compensation related to investments that are purchased or sold for Client Accounts. This means that Clients will not be sold products or services that create additional fees or compensation to benefit Meritam or its employees or its affiliates other than those described in this Brochure and on the Site. However, in addition to advisory fees, Clients may also pay other fees or expenses to third-parties. The issuer of some of the securities or products we purchase for Clients, such as ETFs or other similar financial products, may charge product fees that affect Clients. Meritam does not charge these fees to Clients, and does not benefit directly or indirectly from any such fees. An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of an ETF may include management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Each ETF's current information is available via its prospectus.

Meritam does not charge performance-based fees. Our advisory fees are only charged as disclosed above.

**Brokerage Practices**

If you participate in the Program, you will be required to establish an account with Interactive Broker, member FINRA/SIPC, an unaffiliated SEC-registered broker-dealer. If you do not direct our firm to execute transactions through Interactive Broker, we reserve the right to not accept your account. Not all advisers require their clients to direct brokerage. Since you are required to use Interactive Broker, we may be unable to achieve the most favorable execution of your transactions. We believe that Interactive Broker provides quality execution services based on several factors, including, but not limited to, the ability to provide professional services, reputation, experience and financial stability.

**Research and Other Soft Dollar Benefits**

We do not have any soft dollar arrangements.

**Block Trades**

We do not combine multiple orders for shares of the same securities purchased for advisory accounts we manage (the practice of combining multiple orders for shares of the same securities is commonly referred to as "block trading"). Accordingly, you may pay different prices for the same securities transactions than other clients pay. Furthermore, we may not be able to buy and sell the same quantities of securities for you and you may pay higher fees and/or costs than other clients.

**Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

**Assets Under Management**

As of December 31, 2015, we provide continuous management services for \$650,000 in client assets on a discretionary basis.

## **Item 5 Account Requirements and Types of Clients**

Meritam provides investment advice for nonprofits. The minimum amount required to open and maintain a Meritam Account is \$300,000. Meritam reserves the right, in its sole discretion, to negotiate, reduce or waive the minimum amount for certain Client Accounts. As a result of the automation associated with offering its services online, Meritam makes it possible for nonprofits to access its service with much lower account minimums than normally available in the industry. Additional requirements for opening an Account with Meritam are described in Item 4, above. At any time, a Client may terminate an Account, or withdraw all or part of an Account. In that case, unless otherwise directed by the Client, Meritam will sell the securities in the Client Account (or portion of the Account, in the case of a partial withdrawal) at market prices at the time of the termination or withdrawal.

Investors evaluating Meritam's software based financial advisor service should be aware that Meritam's relationship with Clients is likely to be different from the "traditional" investment advisor relationship in several aspects: 1. Meritam is a software based financial advisor, which means each Client must acknowledge the Client's ability and willingness to conduct parts of its relationship with Meritam on an electronic basis. 2. To provide its advisory services and tailor its investment decisions to each Client's specific needs, Meritam collects information from each Client, including specific information about the organization's investing profile such as financial situation and investment objectives. Meritam maintains this information in strict confidence subject to its Privacy Policy, which is provided on Meritam's website. When customizing its investment solutions, Meritam relies upon the information received from a Client. Clients may update their account information, which could result in an adjustment to their asset allocation and account holdings. As Meritam follows a passive strategy, Meritam reserves the right to limit adjustments in the account holdings to a quarterly basis. 3. The software based financial

advisor service includes preselected ETFs for each asset class within the plan recommended to a Client. Meritam does not allow Clients to select their own ETFs because each ETF and asset class is considered to be part of the overall investment plan.

## **Item 6 Portfolio Manager Selection and Evaluation**

We think that a simpler financial product, with focused options, helps clients center on making clear choices and the best investment decisions. Based on the client input and an advanced algorithm, Meritam seeks to create an individualized investment plan using the optimal asset classes in which to invest, the most efficient and inexpensive ETFs to represent each of those asset classes, and the ideal mix of asset classes based on the Client's specific risk tolerance.

We implement this methodology by recommending a portfolio of broad market index Exchange Traded Funds ("Funds"). Meritam reviews and identifies the most appropriate ETFs to represent each asset class. We look for ETFs that minimize cost and tracking error and offer market liquidity. Many investors do not realize that ETFs do not exactly track the indexes they were created to mimic. Choosing an ETF with a low expense ratio that does not track the asset class recommended by our service runs the risk of sub-optimizing a Client's portfolio's performance. We choose ETFs that are expected to have sufficient liquidity to allow Client withdrawals at any time.

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

For its software based financial advisor service, Meritam provides Clients with financial advice that is based on Modern Portfolio Theory (MPT). MPT attempts to maximize a portfolio's expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by selecting the proportions of various asset classes rather than selecting individual securities.

Historically, rigorous MPT-based financial advice has only been available through high-end financial advisors who typically require minimum account sizes of at least \$1 million and charge annual fees of at least 1% of assets under management. Meritam's goal is to enable nonprofits to access the benefits of MPT. Historically, it was not practical to offer rigorous and complete MPT because delivering a complete solution was too complex and the number of calculations required to identify an optimized asset allocation were into the tens of thousands. Based on the client input and an advanced algorithm, Meritam seeks to create an individualized investment plan using the optimal asset classes in which to invest, the most efficient and inexpensive ETFs to represent each of those asset classes, and the ideal mix of asset classes based on the Client's specific risk tolerance. Meritam does not use portfolio managers per se because it uses an algorithm. Meritam's CEO and industry experts and advisors review the algorithm output and performance.

The algorithm uses the expected return and volatility for each asset class and the covariance among asset classes to find the combination that delivers the highest possible return for a given level of risk. Meritam reviews and identifies the most appropriate ETFs to represent each asset class. We look for ETFs that minimize cost and tracking error and offer market liquidity. Many investors do not realize that ETFs do not exactly track the indexes they were created to mimic. Choosing an ETF with a low expense ratio that does not track the asset class recommended by our service runs the risk of sub-optimizing a Client's portfolio's performance. We choose ETFs that are expected to have sufficient liquidity to allow Client withdrawals at any time.

Meritam offers 'rebalancing' of client portfolios so that in the face of fluctuating market prices each client's portfolio remains controlled to within a narrow range of the Allocation. Meritam recommends rebalancing because it has been shown to improve returns and because it simplifies account management for clients.



Meritam cannot guarantee any level of performance or that any Client will avoid a loss of Account assets. Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear.

### **Proxy Voting Client Securities**

Meritam does not accept authority to vote client securities. Clients who want to vote the securities in their Account must convey their instructions to the custodian of the Account.

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

Because Meritam manages all client portfolios directly via its algorithm, client information is shared with Meritam personnel who assist in reviewing, monitoring and administering the Meritam program. There are no conflicts of interest.

In order to provide the Program services, we will share your private information with your account custodian Interactive Broker. We may also provide your private information to mutual fund companies and/or private managers as needed. We will only share the information necessary in order to carry out our obligations to you in servicing your account. We share your personal account data in accordance with our privacy policy as described below.

### **Privacy Notice**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

If you decide to close your account(s) we will adhere to our privacy policies, which may be amended from time to time.

If we make any substantive changes in our privacy policy that would further permit or require disclosures of your private information, we will provide written notice to you. Where the change is based on permitted disclosures, you will be given an opportunity to direct us as to whether such disclosure is acceptable. Where the change is based on required disclosures, you will only receive written notice of the change. You may not opt out of the required disclosures.

If you have questions about our privacy policies contact our main office at the telephone number on the cover page of this brochure and ask to speak to the Chief Compliance Officer.

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

Clients may contact Meritam by phone during our support telephone hours and via email at all times.

## **Item 9 Additional Information**

### **Disciplinary Information**

Like all registered investment advisors, Meritam is obligated to disclose any disciplinary event that might be material to any Client when evaluating our services.

We do not have any legal, financial, regulatory, or other "disciplinary" item to report to any Client. This statement applies to our firm and to every employee of our firm.

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

We have not provided information on other financial industry activities and affiliations because we do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker.
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund).
3. other investment adviser or financial planner.
4. futures commission merchant, commodity pool operator, or commodity trading advisor.
5. banking or thrift institution.
6. accountant or accounting firm.
7. lawyer or law firm.
8. insurance company or agency.
9. pension consultant.
10. real estate broker or dealer.
11. sponsor or syndicator of limited partnerships.

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

Meritam's paramount ethical, professional, and legal duty is to act at all times as a fiduciary to its Clients. This means that Meritam puts the interests of its Clients ahead of its own, and carefully manages for any perceived or actual conflict of interest that may arise in relation to its advisory services. Meritam maintains a Code of Ethics, which is designed to ensure that we meet our fiduciary obligation to Clients, enhance our culture of compliance within the firm, and detect and prevent any violations of securities laws. A copy of Meritam's Code of Ethics will be provided to any client or prospective client upon request.

Meritam or individuals associated with Meritam may buy or sell securities identical to or different from those recommended to clients for their personal accounts. In addition, any related person(s) may have an interest or position in certain securities, which may also be recommended to a client.

### **Review of Accounts**

Meritam personnel conduct only limited, non-periodic individual reviews of client accounts when triggered by certain investment activity and account settings. Meritam provides all Clients with monthly written reports about Account status, securities positions and balances. Clients may also receive

periodic e-mail communications describing Account information. Meritam's software based financial advisor service assumes that a portfolio created using MPT-based techniques will not stay optimized over time, and must be periodically rebalanced back to its original targets to maintain the intended risk level and asset allocations.

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

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

### **Financial Information**

Meritam does not maintain custody of any client funds or securities. The custodian will send monthly account statements via US mail, and clients should carefully review those statements. Only the Broker's (or other third-party's) trading confirmations and statements represent the official records of a Client's Account. If Clients receive more than one statement, Clients are urged to compare the account statements they receive from the qualified custodian with those they receive from Meritam.

We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and, we do not require the prepayment of more than \$1,200 in fees six or more months in advance. Therefore, we are not required to include a financial statement with this brochure.

Our firm does not have any financial condition or impairment that would prevent us from meeting our contractual commitments to you. We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and, we do not require the prepayment of more than \$1,200 in fees six or more months in advance. Therefore, we are not required to include a financial statement with this brochure.

We have not filed a bankruptcy petition at any time in the past ten years

## **Item 10 Requirements for State-Registered Advisers**

We are a federally registered investment adviser; therefore, we are not required to respond to this item.