

# EthicAlpha

## ADV II: Client Brochure

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### Item 1: Cover Page

This Brochure provides information regarding the qualifications, business practices, and processes of EthicAlpha. If you have any questions about the contents of this Brochure please contact us at the phone number listed above, or at [info@ethicalalpha.com](mailto:info@ethicalalpha.com).

EthicAlpha is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. This Brochure is intended, in part, to provide information which can be used to make a determination to hire or retain an Adviser.

Additional information about EthicAlpha is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2: Material Changes

There have been no material changes since the initial submission and acceptance of this Brochure, dated April 30th, 2016.

## Item 3: Table of Contents

- Item 1: Cover Page
- Item 2: Material Changes
- Item 3: Table Of Contents
- Item 4: Advisory Business
- Item 5: Fees and Compensation
- Item 6: Performance-Based Fees and Side-By-Side Management
- Item 7: Types of Clients
- Item 8: Methods of Analysis, Investment Strategies and Risk of Loss
- Item 9: Disciplinary Information
- Item 10: Other Financial Industry Activities and Affiliations
- Item 11: Code of Ethics
- Item 12: Brokerage Practices
- Item 13: Review of Accounts
- Item 14: Client Referrals and Other Compensation
- Item 15: Custody
- Item 16: Investment Discretion
- Item 17: Voting Client Securities
- Item 18: Financial Information

## Item 4: Advisory Business

Stuart Martin and Adam Kunz are the principal owners of EthicAlpha. EthicAlpha was incorporated in October 2015.

EthicAlpha provides advisory services customized to the needs of each client. EthicAlpha develops a personal investment profile based upon a completed client questionnaire, this questionnaire includes questions regarding the values, ethics, interests, and causes that the client wishes to support. We then make recommendations according to this established criteria. EthicAlpha promotes value investing based strategies, targeting companies that we believe the market has undervalued, that also match the values and ethics of the client.

EthicAlpha seeks to empower its clients to guide their own investments decisions. This process allows clients to impose restrictions on certain securities or types of securities. An important part of this process is identifying interests, causes, and ethics associated with the client. With this as a starting point we then use a neural network; deep learning software to generate a truly customized portfolio of assets that uniquely matches our clients needs, interests, and what we believe to be currently undervalued by the market.

Portfolio risk is addressed by measuring portfolio variance in relation to the general market, better known as Beta. Based on client needs and desires we may additionally recommend a reduction in non-market risk through the use of low fee index Exchange Traded Funds (ETFs).

While basic services are free the client may choose to opt-in to full service financial planning with a Certified Financial Planner © for a monthly retainer of \$95.00. In this case EthicAlpha requires clients to submit credit card information. This information is not collect by the EthicAlpha systems. It is encrypted and routed to the client's bank used secured connections and authentication tokens. EthicAlpha is never in possession of a client's credit card number and has no way to directly access a client's credit card account.

In order to open a brokerage account through our preferred trading partners. EthicAlpha requires clients to submit personal information to our partner so that their identities can be verified and compliance requirements can be met. To help facilitate account creation, we share data required for account creation with our preferred trading partners. All data we collect from the client is sent over a secure connection and is stored safely using modern encryption standards. For more information on our preferred trading partners please see Item 12 "Brokerage Practices".

EthicAlpha does not collect any other non-public personal information beyond information submitted by the user. If a client has an account linked to their EthicAlpha account, account balances, trade information and order status will be available to the client on EthicAlpha's website. Any communication is sent over a secure, encrypted connection.

EthicAlpha does not manage client assets and clients may not impose restrictions as to investing in certain securities or types of securities. However, it is the client's decision whether or not to act on any recommendation provided. EthicAlpha does not buy or sell securities without prior client authorization. All purchase or sales of assets have to be initiated or authorized by the client.

EthicAlpha does not offer a wrap fee program. EthicAlpha's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses, which shall be incurred by the client. EthicAlpha may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfers taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Exchange traded funds (ETFs) also charge internal management fees, which are disclosed in the fund's prospectus. Such charges, fees and commissions are exclusive and in addition to EthicAlpha's costs. EthicAlpha shall not receive any portion of these commissions, fees, and costs.

## Item 5: Fees and Compensation

EthicAlpha offers basic advisement services for free and the user may choose to opt-in to full service financial planning with a Certified Financial Planner (CFP®) for a monthly retainer of \$95.00. EthicAlpha is a fee only investment adviser service and the monthly retainer is good for one hour per month of advisement. Adviser retained hours are non cumulative. Some services are more involved and may require more time to complete than one hour, one such example would be estate planning. In situations like this the Certified Financial Planner® will provide a quote to the client documenting the additional hours required to be charged at the standard rate of \$95.00 per hour.

EthicAlpha offers a fundamental analysis based neural network recommendation service based on a value and values based approach. Our learning algorithms identify companies believed to be trading below market value and weight them heavily. Similarly the learning algorithms identify companies who match closely with the client's values based on industry standard Environmental, Social, and Governance (ESG) metrics and weight them heavily as well. This analysis is done in a real time and ongoing basis and may make additional recommendations as events change and rebalancing is required. These services represent our basic offering and are completely free for our clients.

Fees will be charged to a client's credit card at initial authorization and at the first of the month thereafter. Initial fees will be fully refunded, provided a request is submitted to customer service with 5 days of sign up.

The monthly retainer does not cover transaction fees or brokerage fees. Our preferred broker dealer, Interactive Brokers, will charge commissions and potentially a service fee for inactive accounts. For more information on our preferred trading partners please see Item 12 "Brokerage Practices".

The monthly retainer fee does not cover charges imposed by third parties for investments held in the account, such as contingent deferred sales charges or 12(b)-1 trails on mutual funds. In addition, each mutual fund charges asset management fees, which are in addition to the fees charged by EthicAlpha. The Monthly retainer fee also does not cover any other fees and changes in connection with maintenance of your brokerage account, such as: debit balances; margin interest; off-lot differentials; IRA fees; transfer taxes; exchange fees; wire transfers; extensions; non-sufficient funds; mailgrams; level transfers; bank wires; postage; costs associated with exchanging foreign currencies; and SEC fees or other fees or taxes required by law. For more information regarding brokerage practices please see Item 12 of this Brochure.

Clients have the option to purchase investment products that we recommend through other brokers or agents that are not affiliated with EthicAlpha.

#### **Account Termination**

The client and/or the firm may terminate the contract at any time by sending written notice. A full refund will be provided without penalty if the client terminates the contract within five business days of signing with the firm. For the purposes of this provision, a contract is considered entered into when all parties to the contract have signed the contract.

Upon written receipt of notice to terminate its Client Agreement and unless specific transfer instructions are received, EthicAlpha and its agent will cease advisory services.

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

EthicAlpha does not charge any performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets of a client).

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

EthicAlpha provides portfolio management service primarily to individuals, but also accepts trust and corporate accounts.

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

The EthicAlpha investment strategy begins by understanding a client and working backwards from that. This includes understanding a client's goals, risk tolerance, lifestyle, beliefs and ethics. Every client must complete a questionnaire for us to create this profile.

Advisors use information provided by the client to assess the client's risk profile, investment objectives, personal beliefs and ethics to determine an appropriate plan for the client's assets. Investment strategies determine the optimal duration for investment purchase based on

minimizing tax liability, loss due to fees and transactions costs, and ensuring asset's continuing compliance the client's ethics. Ordinarily investment strategies include long and short-term purchased of individual stocks, preferred stocks and Exchange Traded Funds (ETFs).

Investment recommendations are based on a two part process. First; quantitative and qualitative analysis is done applying a long term value based investing approach. Second; we then identify assets that align with a client's individual needs and ethics.

In the first step we attempt to measure the intrinsic value of a security by looking at economic, financial, management, and growth metrics to determine if the company is undervalued by the market. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

In the second step we attempt to match assets we believe undervalued in the market to the individual needs of each client. This is done based on the results of the client questionnaire matching their risk tolerance, investment objectives, and personal ethics. EthicAlpha measures personal ethics using industry accepted metrics for Environmental Social Governance (ESG).

It is important to note that investing in securities involves certain risks that are borne by the investor. For any risks associated with investment products, please refer to the prospectuses for additional details about these risks. This investment approach constantly keeps the risk of loss in mind. These risks include, but are not limited to:

- **Interest-rate Risk:** Fluctuations in the interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady

stream of customers who buy electricity no matter what the economic environment is like.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial distress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Suitability Risk:** Our free service is geared towards clients who can assume a level of risk associated with equity markets. The free tier of advice may not be suitable for those in retirement or will soon be entering retirement where preservation of current capital is the only consideration in investment selection.

## Item 9: 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 EthicAlpha or the integrity of EthicAlpha's management.

EthicAlpha has no history of disciplinary or legal events.

## Item 10: Other Financial Industry Activities and Affiliations

EthicAlpha does not have any affiliations through common control or ownership with any other investment related firm. However, EthicAlpha's Advisory Board and Executive Management are comprised of wealth managers, retail brokerage experts, and technology and data professionals. Advisers and Executive management include an Analyst, Advisory and Investment Management specialist at Thomson Reuters. Founder; Adam Kunz, with 14 years of experience in operations including product development and strategic investment in the fintech space, and Founder; Stuart Martin; acting as the principal solutions architect with over 10 years in data research. In addition; Stuart is a Registered Investment Adviser with years of personal and professional experience.

## Item 11: Code of Ethics

EthicAlpha has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a

prohibition on purchasing stocks before advisement of the client to do so (front running), a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at EthicAlpha must acknowledge the terms of the Code of Ethics annually, or as amended.

Advisors of EthicAlpha may buy or sell securities that are recommended to clients. EthicAlpha's employees and persons associated with EthicAlpha are required to follow the Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of EthicAlpha and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for EthicAlpha's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interest of the employees of EthicAlpha will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of EthicAlpha's clients. In addition, the Code prevents access persons from participating in short swing profits by requiring access persons to hold positions for a minimum of 30 days. EthicAlpha also maintains a restricted list. Securities are added to the restricted list when there is a change in recommendation. Access persons are prohibited from trading any securities added to the restricted list for 1 business day. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between EthicAlpha and its clients.

EthicAlpha's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Stuart Martin at our main number.

## Item 12: Brokerage Practices

EthicAlpha recommends the brokerage services of Interactive Brokers. The recommendation for Interactive Brokers is due to the fact that they charge a very low commissions of the greater between \$1 or \$0.005 per share of the trade transaction. This allows our clients to maintain an optimal portfolio while minimizing the impact trades and commissions have on the portfolio, allowing instead for those funds to be invested.

Interactive Brokers is a registered broker-dealer that is compensated through brokerage commissions or transactions fees charged for effecting securities transactions.

EthicAlpha does not receive any fee for referring clients to Interactive Brokers. EthicAlpha is not affiliated with Interactive Brokers, clients are urged to review and understand all related charges and fees which will be disclosed separately by each respective broker dealer.

Clients are permitted to direct brokerage and select their own broker-dealer to custody assets and execute trades. In this case, the client will negotiate the terms and arrangements with the broker-dealer of choice. EthicAlpha may be unable to achieve most favorable execution of client



transactions. Directing brokerage may cost clients more money as the client may receive less favorable prices. Clients should carefully review all costs associated with a broker dealer before opening an account. EthicAlpha's fee is the same, regardless of the broker-dealer selected.

Interactive Brokers makes products and services available to EthicAlpha that benefit the firm but may not directly benefit its client accounts. Many of these products and services are used to service all or a substantial number of EthicAlpha accounts. Some of these products and services provided includes software and other technology that: provides access to client account data (such as trade confirmations and account statements); provides research, pricing and other market data; facilitates payment of fees from clients' accounts; and assets with back-office functions, recordkeeping and client reporting. When client brokerage commissions are used to obtain research or other products or services, EthicAlpha receives a benefit because we do not have to product or pay for these products or services ourselves. We make no effort to allocate soft dollar benefits to clients in proportion to the amount of soft dollar benefits generated by each client.

## Item 13: Review of Accounts

EthicAlpha's recommendations are based, in part, by the client's ethics. A client can review and update this information at anytime by visiting the EthicAlpha website. Client accounts are not reviewed by EthicAlpha.

The company update it's equity recommendations monthly. EthicAlpha takes into account unique client details and will make additional recommendations monthly, quarterly, or annually to minimize losses due to taxes, commissions and fees. This information is available in each client's account when they log into the EthicAlpha website.

## Item 14: Client Referrals and Other Compensation

EthicAlpha receives no referral fee or other compensation for a client opening an account. We believe it is EthicAlpha's fiduciary responsibility to seek third parties that will be serve our clients best and hence do not seek compensation. EthicAlpha choose Interactive Brokers as our preferred broker dealer because they offer very cost effective charges on trade commissions when compared to their peers. This choice was made as we believe it best serves our customers.

## Item 15: Custody

Clients should receive statements at least quarterly from the qualified custodian that holds and maintains your investment assets. EthicAlpha urges you to carefully review such statements.

EthicAlpha does not maintain custody of client funds.

## Item 16: Investment Discretion

EthicAlpha offers advisory services on a non-discretionary basis. The client is solely responsible for acting on such advice.

## Item 17: Voting Client Securities

As a matter of firm policy and practice, EthicAlpha does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in their portfolios. Clients will receive their proxies or other solicitations directly from the custodian or transfer agent. Clients should contact their Advisor if they have any questions or to obtain this information.

## Item 18: Financial Information

Registered Investment Advisers are required in this Item to provide you with certain financial information or disclosures about EthicAlpha's financial condition. EthicAlpha has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.