

ADV Part 2A – Investment Adviser Brochure

Item 1: Cover Page

MAHLER & EMERSON INC.

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January 2, 2014

This brochure provides information about the qualifications and business practices of Mahler & Emerson Inc. If you have any questions about the contents of this brochure, please contact us at 212.607.3251 or by e-mail at hmahler@mahler-emerson.com.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Mahler & Emerson may refer to itself as a "registered investment adviser" or describes itself as "registered." Registration does not include or imply a certain level of skill or training. Neither the SEC, the securities regulatory authority of any state, nor the securities regulatory authority of any other jurisdiction has approved or disapproved our regulatory status, or passed upon the adequacy or accuracy of this brochure.

Additional information about Mahler & Emerson also is available on the SEC's website at www.adviserinfo.gov.

Item 2 – Material Changes

This Item discusses the following material changes that have occurred since our last Form ADV filing on July 31, 2013:

1. We have moved our offices to 590 Madison Avenue, 34th floor, New York, NY 10022 and changed our main telephone number to (212) 607-3251.
2. We have updated Item 4 to reflect our assets under management as of December 22, 2013.
3. We have updated Item 10 to indicate that Mr. Mahler's affiliation with Brean Capital is scheduled to terminate on January 2, 2014. In addition, we have disclosed that Mr. Mahler, along with another supervised person, are registered representatives of a broker-dealer specified under that item.

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Item 4 – Advisory Business

Mahler & Emerson Inc. (“M&E”) is an investment adviser based in New York. We have been providing investment advice as a corporation organized under the laws of the state of New York since 1974. Herbert W. Mahler is the principal owner of M&E.

We provide advisory services to individuals, including high net worth individuals, pension and profit sharing plans, charitable organizations, corporations and other businesses, individual retirement trusts and Keogh accounts. Our services are customized to our client’s investment needs based upon a variety of factors such as their tax bracket, age, marital status, risk tolerance, and liquidity needs. Financial plans are developed for certain clients based on an assessment of the client’s specific needs. The investments we may recommend include, but are not limited to, mutual funds, exchange-traded funds (ETFs), and individual debt and equity securities, in accordance with the client’s investment objectives. Clients may impose restrictions on our services at any time.

M&E may also prepare and distribute to clients certain periodicals and special reports related to (i) foreign exchanges, (ii) sovereign risk, (iii) interest rates, (iv) options, and (v) futures markets. At clients’ request, we may also offer comments on tax advantaged investments, real estate investment trusts, estates, and certain insurance matters. These periodicals and special reports are issued to clients at no additional charge.

Assets Under Management

As of December 22, 2013, we had discretionary assets under management of approximately \$17 million and non- discretionary assets under management of \$10.4 million.

Item 5 – Fees and Compensation

Advisory Fees.

Our advisory fees cover both financial planning and investment services. We charge asset-based fees for our services, which are negotiable up to 2%, at our discretion. We may reduce or waive our advisory fees, in our discretion.

Advisory fees are typically charged quarterly in advance, or may be charged in arrears, either bi-annually or annually at the discretion of the firm. Clients who choose to pay advisory fees in advance will not be charged more than 90 days in advance. Clients have the option to be invoiced for advisory fees or to have such fees deducted from their account. Clients are provided with invoices reflecting the advisory fees charged by us.

Clients may terminate their advisory agreement upon thirty (30) days advance written notice to M&E. Upon termination, all prepaid, unearned fees will be promptly refunded, and all earned, unpaid fees will be due and payable.

Consultation Fees.

Upon request, we may provide consultation on sophisticated financial matters, separate from our services described above. Our hourly rate for investment counseling is \$150. We do not give

refunds for consultation fees.

Commissions.

Certain supervised persons of M&E also receive commissions from the sale of securities and other investment products that M&E recommends to its clients, including, but not limited to, asset-based distribution fees from the sale of mutual funds. All of M&E's supervised persons that earn commissions utilize the same practice to earn sales-related compensation from clients. Also, as indicated above, we may charge advisory fees in addition to commissions or markups, however, our advisory fees may be reduced or waived to offset any commissions or markups received by supervised persons, at the discretion of M&E. Clients also have the option to purchase investment products that M&E recommends through other broker-dealers or agents not affiliated with M&E.

M&E and its supervised persons have a fiduciary duty to act in the best interest of M&E's investment advisory clients when recommending securities. The receipt by supervised persons of commissions from the sale of securities and other investment products recommended by M&E to its clients may create a potential conflict of interest in that this practice provides an incentive to our supervised persons to recommend securities and products based on the commissions received, as opposed to the client's need. As such, M&E has adopted and enforces a Code of Ethics that addresses any conflicts of interests arising from this arrangement. Under our Code of Ethics, M&E and its supervised persons are required, at all times, to place the interests of clients ahead of their own interests. See Item 11 for a brief description of our Code of Ethics.

Other Charges and Expenses

Our advisory fees do not include transactional fees assessed by the broker-dealer or custodial firm. Our advisory fees are also separate and distinct from the fees and expenses charged by mutual funds to their shareholders. Mutual fund and EFT fees are described in each certain fund's prospectus or product descriptions. These expenses will include a management fee, other fund expenses, and possibly a distribution fee from investments such as no-load products. For more information on our brokerage practices, see Item 12 of this Brochure.

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

M&E does not provide services to any account for which it charges a performance-based fee.

Item 7 – Types of Clients

M&E offers its investment advisory services to individuals, including high net worth individuals, pension and profit sharing plans, charitable organizations, corporations and other businesses, individual retirement trusts and Keogh accounts.

All clients must complete a New Account form prior to establishing an account with M&E. Information gathered on this form includes, but is not limited to, the client's identity, investment goals and objectives and risk tolerance. Each client must also undergo a background check, and provide proper identification and sufficient other personal information to ensure compliance with government regulations.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

M&E's investment selection process includes both a qualitative and quantitative approach utilizing various sources of information to create a portfolio that is aligned with each client's needs. Such sources of information may include: (a) financial newspapers and magazines, (b) review of corporate activities, (c) research materials prepared by others, (d) corporate rating services, (e) timing services, (f) annual reports, (g) specific product prospectuses, (h) filings with the SEC, (i) corporate executive contracts, (j) electronic data services, (k) attending meetings of securities analysts, and (m) meetings with and evaluations of corporate management.

Clients should be aware that different types of investments and strategies involve differing degrees of risk. Clients should not assume that future performance of any of their specific investments or investment strategies, including those we recommend, will be profitable or equal any specific performance levels. Any investment or investment strategy involves some risk of loss which clients should be prepared to bear. Examples of risk clients could face are:

- *Interest-rate Risk:* Fluctuations in 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, bond, or mutual fund 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.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the U.S. dollar against the currency of the investment's originating country. Also known as exchange rate risk, these risks may be present in international mutual funds.
- *Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (e.g., interest rate).
- *Business Risk:* These are risks associated with a particular industry or a specific 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 the economic environment.
- *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 stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

- *Governmental Risk:* Actions by the U.S. government or international governments may have a negative effect on the value of investments through budgetary constraints and central bank monetary policies.

- *Personnel Risk:* M&E is heavily dependent on the activities, judgment and availability of Herbert Mahler. M&E has contingency plans in the event of Mr. Mahler's short-term absence, but we may be unable to perform our contractual obligations to clients in the event of his death or permanent disability.

M&E conducts several types of analyses on securities considered, purchased or sold for each client account. We currently employ the following analyses:

□ ***Fundamental Analysis.*** Entails the evaluation of a company's operating performance and financial condition based on our analyses of the company's financial statements and other pertinent information, including the management of the company. The risk in employing this method is that information obtained may be incorrect and the analysis may, therefore, provide an inaccurate estimate of earnings and other factors, which may form the basis for the stock's value.

□ ***Charting Analysis:*** Entails the use of patterns/changes in supply and demand to determine favorable conditions for buying and/or selling a security. The risk involved in this method is that only past performance data is considered.

□ ***Technical Analysis:*** Entails the analysis of past market data involving price and/or volume movements. The risk in using this method is that markets do not always follow patterns.

□ ***Cyclical Analysis:*** Is a form of technical analysis that entails the evaluation of recurring price patterns and trends. The risk involved in utilizing this method is that economic cycles are unpredictable and may have many fluctuations between long-term expansions and contractions.

□ ***Political Analysis:*** Entails the evaluation of changes in government, legislative bodies, etc. The risk in utilizing this analysis is that potential changes in policies may affect investment returns.

In addition, M&E conducts cash generation analysis for fixed income interest obligations, dividend paying preferred stocks and yield-oriented issues.

Investing in securities involves a risk of loss that clients should be prepared to bear.

Item 9 – Disciplinary Information

In May 2012, M&E, in its capacity as a then registered broker-dealer, signed a Letter of Acceptance, Waiver and Consent with the Financial Industry Regulatory Authority, Inc. (“FINRA”) whereby M&E consented to sanctions and the entry of findings. The allegations related to the failure by M&E to conduct required independent testing of its anti-money laundering (AML) compliance program. Where M&E’s securities business consisted of proprietary trading, the firm was required to conduct independent tests of its AML compliance program every two years. M&E did not have an adequate system to preserve emails or written procedures governing the use, review and retention of email correspondence in accordance with regulatory requirements. In addition, M&E did not have adequate written supervisory procedures to supervise the firm’s registered representatives’ compliance with certain FINRA Rules, including the supervision of outside business activities and outside securities accounts.

Item 10 – Other Financial Industry Activities and Affiliations

Mr. Mahler is currently a registered representative of Brean Capital LLC. (“Brean Capital”), a FINRA registered broker-dealer through which M&E’s clients’ securities transactions may be executed. Mr. Mahler’s relationship with Brean Capital is scheduled to be terminated on January 2, 2014.

Mr. Mahler, along with another supervised person of M&E are currently registered representatives of Forefront Capital Markets, LLC, a FINRA registered broker-dealer through which M&E’s clients’ securities transactions may be executed.

Investment adviser representatives who are also registered representatives may earn commissions on the purchase or sale of securities products, including asset-based charges or services from the sale of mutual funds. The receipt of additional compensation creates a theoretical conflict of interest between the clients and the investment adviser representatives of M&E. Such conflicts are addressed through the policies and procedures set forth in M&E’s Code of Ethics, which require each supervised person to place a client’s interest ahead of their own. See Item 11, Code of Ethics.

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

M&E has adopted a Code of Ethics for all employees designed to ensure that the high ethical standards long maintained by M&E continue to be applied. Employees are strictly prohibited from engaging in fraudulent, deceptive or manipulative conduct. The Code of Ethics is based on the principal that M&E and its employees owe a fiduciary duty to clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with M&E, and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

It is the express policy of M&E to place clients’ interests first. M&E supervised persons may invest in the same securities that are purchased or sold by M&E clients. Supervised persons may buy or sell securities for their own accounts at or about the same time the same securities are

bought or sold on behalf of client accounts. This creates a potential conflict of interest related to the pricing of securities. We ensure that all securities purchased or sold on the same day receive the same price by averaging the price of each purchase or sale. Supervised persons are required to report all securities transactions to M&E's Chief Compliance Officer, who reviews such transactions for compliance with policies contained in our Code of Ethics.

M&E's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting us at the number set forth on the cover page of this brochure.

Item 12 – Brokerage Practices

In selecting or recommending broker-dealer(s) for client transactions we consider a variety of factors, including (1) The commission rates charged by the broker in comparison to the charges of other brokers for similar transactions; (2) Direct access to the broker's trading desk and the familiarity of the contact person with our business and interests; (3) The extensiveness of the broker's distribution network and its ability to fulfill more difficult orders (e.g., thinly traded or limited availability securities); (4) The ability of the broker to maintain confidentiality while executing trades to prevent the disclosure of our investment strategy or the details of an order in a way that will adversely affect the market price; (5) The broker's execution abilities, including the level of accuracy in executing orders, speed of execution, and ability to obtain best net price; (6) The broker's communications and administrative abilities, including efficiency of reporting, settlement efficiency, and proper correction of trade errors; (7) The broker's research capabilities and ability to provide market information; (8) The extent to which the broker provides us with access to companies through trade shows, conferences or other contacts; (9) The quality and flexibility of any custodial services provided by the broker; and (10) The financial stability of the broker.

While not typically recommended or required, clients are permitted to direct us to execute transactions through a specified broker-dealer of their choosing. In the event that a client directs that a specific broker-dealer be used to execute client transactions, M&E may not be able to achieve most favorable execution for such client's transactions, which may, in turn, be more costly for such client.

M&E may aggregate purchase and sell order of securities where there is a demand.

Item 13 – Review of Accounts

Portfolio Management

The Chief Compliance Officer of M&E reviews client account activity daily, and positions in all accounts are monitored monthly. Accounts are also reviewed as a result of client contact to provide us with updated information or to make inquiries. Further, accounts are reviewed when un-invested cash accumulates and upon significant market, financial, economic, political, or global events.

Clients receive monthly account statements from their custodian, which are reviewed by M&E. Fee-based clients may also receive a statistical account review periodically from M&E with their invoice, which may be done annually or more frequently depending upon the specific client

arrangement.

Item 14 – Client Referrals and Other Compensation

M&E does not receive any economic benefit from non-client relationships, and M&E and its related persons do not compensate anyone for client referrals.

Item 15 – Custody

M&E does not have physical custody of client funds and/or securities, but is deemed to exercise limited custody over client assets due to its ability to deduct advisory fees directly from the client account. An unaffiliated qualified custodian maintains physical custody of all client funds and securities. At least quarterly, the qualified custodian will provide clients with an account statement, disclosing among other things, all amounts disbursed from the client account, including the amount of any advisory fees and commissions paid to M&E. Clients should carefully review their account statements, and contact us if they have any questions.

Item 16 – Investment Discretion

Each client with a discretionary account executes a limited power of attorney granting M&E discretionary authority to purchase and sell securities in the client's account, select the broker-dealer that will effect securities transactions in the account, and select the qualified custodian that will maintain physical custody of client funds and securities.

Item 17 - Voting Client Securities

As a matter of policy, M&E does not accept the authority to vote proxies on behalf of advisory clients. Clients are responsible for receiving and voting proxies for all securities in their advisory account. Clients will receive proxies and other solicitation materials directly from their qualified custodian. Client may contact us with any questions they may have relating to proxy solicitations.

Item 18 – Financial Information

M&E does not have any financial condition that is reasonably likely to impair its ability to meet its contractual and fiduciary commitments to clients and M&E has never been the subject of a bankruptcy petition.