

# Disclosure Brochure

October 29, 2019



**DARROW WEALTH  
MANAGEMENT**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of The Darrow Company, Inc. d/b/a Darrow Wealth Management (hereinafter "DWM" or the "Firm"). If you have any questions about the contents of this brochure, please contact Thomas J. McFarland at (978) 369-5144. 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 DWM is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

DWM is an SEC registered investment adviser. Registration does not imply any level of skill or training.

### **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since DWM's last annual update filed March 25, 2019. The Firm has updated various sections of this brochure to reflect that it is no longer managing the DWM Strategic Equity Income Fund, LLC which has closed as of September 30, 2019. Following the closure of the fund, the Firm is also no longer voting proxies for any clients, as reflected in Item 19. The Firm has no other changes to disclose in relation to this Item.

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## Item 4. Advisory Business

DWM is a fee-only wealth management and investment advisory firm that has operated since September 1987. DWM manages assets by employing financial strategies based on each client's individual and unique requirements.

DWM provides financial modeling, consulting, and investment management services. DWM's primary office is in Concord, MA, but it also maintains offices in Boston, MA and Los Angeles, CA. Thomas McFarland is the principal owner of DWM. As of December 31, 2018, DWM had \$165,778,471 in assets under management, all of which was managed on a discretionary basis.

Prior to engaging DWM to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with DWM setting forth the terms and conditions under which DWM renders its services (collectively the "Agreement").

This disclosure brochure describes the business of DWM. Certain sections will also describe the activities of Supervised Persons. Supervised Persons are any of DWM's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on DWM's behalf and is subject to DWM's supervision or control.

### Financial Modeling and Consulting Services

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DWM provides its clients with a broad range of financial modeling and consulting services (including account consolidation and non-investment related matters). These services address, among other issues, tax and cash flow projections, balance sheet and net worth analysis, tax planning, asset allocation strategies, retirement planning, estate planning, professional practice planning, strategies for exercising incentive stock options and nonqualified stock options, and educational needs funding.

DWM also renders consulting services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, DWM either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

In performing services, DWM is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. DWM recommends the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if DWM recommends its own services. In certain situations, the Firm accepts the discretionary authority to act upon and execute its recommendations. In others, where the Firm lacks the power to exercise discretion and/or execute transactions, the client retains absolute discretion over all such implementation decisions and is free to accept or reject any of DWM's recommendations. Clients are advised that it remains their responsibility to promptly notify DWM if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising DWM's previous recommendations and/or services.

## Investment Management Services

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Clients can engage DWM to manage all or a portion of their assets on a discretionary basis.

DWM primarily allocates clients' investment management assets among low-cost exchange-traded funds (ETFs) and select passively-managed mutual funds in accordance with the investment objectives of the client. DWM frequently recommends mutual funds offered by Dimensional Fund Advisors ("DFA") where suitable for clients. DFA sponsored mutual funds follow a passive asset class investment philosophy which is academically research driven. From time to time depending on a client's individual financial situation, DWM also allocates clients' investment management assets among certificates of deposit and other securities. DWM also provides advice about any type of investment held in clients' portfolios.

DWM tailors its advisory services to the individual needs of clients. DWM consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. DWM ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify DWM if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon DWM's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in DWM's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

DWM provides the above-referenced services principally through its Private Wealth Management program. The Private Wealth Management program offers DWM's clients a broad and extensive range of asset management, financial planning, tax planning, estate planning and trust management services. With respect to the financial planning services offered through the Private Wealth Management program, where appropriate, DWM helps its clients develop an extensive financial model that supports the client's goals and needs for a separate fee. With respect to the asset management services, based on a client's risk profile and unique set of financial goals and objectives, DWM assists its clients in determining an appropriate investment objective used to manage the client's financial assets. DWM creates for its clients a personal investment portfolio of carefully selected mutual funds and ETFs selected to meet their elected investment objectives. The client's asset allocation is determined based on the client's investment objectives and goals. DWM's investment management process includes: creating a diversified portfolio with an expected rate of return over the long-term that reflects a client's Risk Profile; monitoring portfolios to enable DWM to make changes as needed to accommodate new requirements, new strategies, or new interests; and maintaining a responsive investment program sensitive to a client's needs as they evolve, rebalancing a portfolio and modifying risk as circumstances warrant. Clients must maintain at least \$500,000 in assets with DWM to participate in the Private Wealth Management program, however, DWM, in its sole discretion, may accept clients with smaller portfolios for various reasons as listed under the minimum account size section of this document.

## Retirement Plan Consulting Services

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DWM provides various consulting services to qualified employee benefit plans and their fiduciaries. This suite of institutional services is designed to assist plan sponsors in structuring, managing and optimizing their corporate retirement plans. Each engagement is individually negotiated and customized.

As disclosed in the Advisory Agreement, certain of the foregoing services are provided by DWM as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). In accordance with ERISA Section 408(b)(2), each plan sponsor is provided with a written description of DWM's fiduciary status, the specific services to be rendered and all direct and indirect compensation the Firm reasonably expects under the engagement.

### Item 5. Fees and Compensation

DWM offers its services on a fee basis, which include hourly and/or fixed fees, as well as fees based upon assets under management depending on the particular engagement with each client.

#### **Financial Modeling and Consulting Fees**

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DWM charges a fixed fee and/or hourly fee for financial modeling and consulting services. These fees are negotiable, but generally range up to \$10,000 on a fixed fee basis and/or \$250 to \$400 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial modeling and/or the consulting services. If the client engages DWM for additional investment advisory services, DWM may offset all or a portion of its fees for those services based upon the amount paid for the financial modeling and/or consulting services.

Prior to engaging DWM to provide financial modeling and/or consulting services, the client is required to enter into a written agreement with DWM setting forth the terms and conditions of the engagement. Generally, the financial modeling and/or consulting fee (estimated hourly or fixed) is payable upon entering the written agreement.

#### *Estate Plan Settlement and Discovery Services*

When asked upon by clients, DWM may provide a range of estate plan settlement and litigation discovery services for its clients. Fees for such services range from \$250 to \$400 per hour, depending on the nature and scope of such services.

#### **Investment Management Fee**

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DWM provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by DWM. DWM's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. DWM does not, however, receive any portion of these commissions, fees, and costs. DWM's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by DWM on the last day of the previous quarter (the "*Portfolio Value*"). The annual fee typically varies (between 0.70% and 1.20% for any portfolios containing equity securities and between 0.25% and 0.50% for any portfolios containing only fixed income securities) depending upon the market value of the assets under management and the type of investment management services to be rendered. Such fees may be reduced by DWM in its sole and absolute discretion. As discussed in Item 7 (below), DWM generally imposes an account minimum fee of \$2,500 for starting and maintaining an investment management relationship with the Firm.

In limited circumstances, DWM alters its billing arrangement for clients (i.e. bill in arrears instead of advance). This is agreed upon directly with the client.

Where appropriate, DWM also acts in the capacity as the consultant for fund selection and provides plan participant education. For those 401(k) plans where DWM acts as the consultant, DWM will charge a flat 0.50% fee per annum, billed in arrears, based on the value of the plan in its entirety as of the end of the previous quarter.

The *Portfolio Value* is determined by one or more independent third-party custodians that DWM deems reliable. As discussed below, DWM utilizes more than one custodian for its clients, and as such, not all clients maintain assets at the same custodian. DWM may utilize one or more custodians to place the same trades for clients whose assets are held at different custodians. If DWM effects the same trade (generally for fixed income and only where the CUSIP number is identical) through more than one custodian, the pricing services of the custodians may not match. DWM chooses one custodian's pricing service to prevail when calculating the client's portfolio value and its fees. This may differ from the value of the account as stated on the custodial statement. Additionally, the custodian generally does not include accrued interest, while DWM believes its valuation incorporates a more accurate methodology. However, clients are advised that the custodian's account statement is the true and accurate reflection of their current account balance.

DWM, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

To enable clients to benefit from the lowest possible fee rate, immediate family member accounts and/or business related accounts may be aggregated for the purpose of determining fees (e.g., profit sharing account and immediate family members and/or pension or personal trusts associated with those individuals whose designated fee schedules are the same (e.g., equity or fixed income) will be aggregated and treated, for billing purposes, as one account within the same fee structure so as to achieve the lowest possible fee rate).

### **Fees Charged by Financial Institutions**

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As further discussed in response to Item 12 (below), DWM generally recommends that clients utilize the brokerage and clearing services of TD Ameritrade, Inc. ("TD Ameritrade"). DWM also utilizes the brokerage and clearing services of Fidelity Institutional Wealth Services ("Fidelity"), Charles Schwab & Co., Inc. ("Schwab") and/or National Advisors Trust Company, FSB ("National Advisors Trust") for investment management accounts.

DWM may only implement its investment management recommendations after the client has arranged for and furnished DWM with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, TD Ameritrade, Fidelity, Schwab, National Advisors Trust, any other broker-dealer recommended by DWM, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "Financial Institutions").

Clients incur certain charges imposed by the Financial Institutions and other third parties such as custodial fees, margin costs, reporting charges, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund

fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to DWM's fee.

### **Fee Debit**

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DWM's Agreement and the separate agreement with any Financial Institutions may authorize DWM to debit the client's account for the amount of DWM's fee and to directly remit that management fee to DWM. Any Financial Institutions recommended by DWM have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to DWM. Alternatively, clients may elect to have DWM send an invoice for payment.

### **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

At an account's inception, DWM selects a date that it will begin managing the assets ("start date"). The start date varies depending upon the status of assets being successfully transferred to the account custodian. DWM charges a prorated fee for the first quarter beginning on the start date through the end of the quarter.

The *Agreement* between DWM and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. DWM's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

The client may make additions to the account at any time, subject to DWM's right to terminate an account. Clients may withdraw account assets on notice to DWM, subject to the usual and customary securities settlement procedures. However, DWM designs its portfolios as long-term investments and asset withdrawals may impair the achievement of a client's investment objectives. Additions may be in cash or securities, provided that DWM reserves the right to decline to accept particular securities into a client's account.

Additions may be in cash or securities provided that DWM reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter that exceed \$50,000, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter.

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

### **No Performance Based Fees**

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DWM does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.



## Item 7. Types of Clients

DWM provides its services to individuals, trusts and estates.

### Minimum Account Size

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To participate in DWM's Private Wealth Management program, clients must invest at least \$500,000 with DWM. DWM, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities. DWM only accepts clients with less than the minimum portfolio size if, in the sole opinion of DWM, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. DWM may aggregate the portfolios of family members to meet the minimum portfolio size.

### Minimum Account Fee

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As a condition for starting and maintaining an investment management relationship, DWM imposes a minimum annual fee of \$2,500. This minimum fee will cause clients with smaller portfolios to incur an effective fee rate that is higher than the Firm's stated fee schedule. DWM may, in its sole discretion, elect to waive its minimum fee based upon certain criteria, including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities.

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

### Investment Strategies and Methods of Analysis

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DWM tailors its investment recommendations to its clients' investment objectives utilizing global asset allocation models developed for each of DWM's managed investment objectives. These models are periodically adjusted according to changes in future market expectations and current market conditions.

DWM offers a variety of models with varying degrees of risk. DWM constructs its models using a top-down macroeconomic global market perspective. Individual asset classes, market sectors (i.e., domestic, international, and real estate), market caps (i.e. large, mid, small) and styles (i.e. value, growth) are then assigned within the model according to DWM's global macroeconomic analysis. Subsequently, a combination of investment strategies utilizing passive mutual funds and low cost, low turnover ETFs are utilized to implement the models. DWM frequently recommends passively-managed mutual funds sponsored by DFA as well as other ETFs to clients, depending on the financial situation and investment objectives of such clients. When appropriate, individual securities (equities or fixed income) may be incorporated into the models. DWM reviews client accounts at least quarterly and rebalances the accounts as market conditions warrant.

When evaluating securities, DWM's primary method of analysis is cyclical. Cyclical analysis involves the analysis of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that DWM is

recommending. The primary risk in using cyclical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that DWM will be able to accurately predict such a reoccurrence.

### **Risk of Loss**

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#### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear the loss of all amounts invested.

#### *Market Risks*

The profitability of a significant portion of DWM's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that DWM will be able to predict those price movements accurately.

#### *Volatility Risks*

The prices and values of investments can be highly volatile, and are influenced by, among other things, interest rates, general economic conditions, the condition of the financial markets, the financial condition of the issuers of such assets, changing supply and demand relationships, and programs and policies of governments.

#### *Cash Management Risks*

The Firm may invest some of a client's assets temporarily in money market funds or other similar types of investments, during which time an advisory account may be prevented from achieving its investment objective.

#### *Equity-Related Securities and Instruments*

The Firm may take long and short positions in common stocks of U.S. and non-U.S. issuers traded on national securities exchanges and over-the-counter markets. The value of equity securities varies in response to many factors. These factors include, without limitation, factors specific to an issuer and factors specific to the industry in which the issuer participates. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments, and the stock prices of such companies may suffer a decline in response. In addition, equity securities are subject to stock risk, which is the risk that stock prices historically rise and fall in periodic cycles. U.S. and non-U.S. stock markets have experienced periods of substantial price volatility in the past and may do so again in the future. In addition, investments in small-capitalization, mid-capitalization and financially distressed companies may be subject to more abrupt or erratic price movements and may lack sufficient market liquidity, and these issuers often face greater business risks.

#### *Fixed Income Securities*

Fixed income securities are subject to the risk of the issuer's or a guarantor's inability to meet principal and interest payments on its obligations and to price volatility.

## *Thinly-Traded Securities*

The Firm can invest client assets in certain securities where there is very low trading volume. As a result, the Firm can face risks in purchasing and disposing of such securities because of the absence of purchasers or sellers in the market or a wide price spread for such security. As a result, the Firm may not be able to purchase or dispose of such securities for clients in the desired quantity or timeframe, and, even if the Firm can purchase or dispose of such securities, it may not be able to do so at the desired price or within the desired timeframe.

## *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss. As such, a fund investor may incur substantial tax liabilities even when the fund underperforms.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

## *Management Through Similarly Managed Accounts*

DWM manages portfolios by allocating portfolio assets among various securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as "investment strategy"). In so doing, DWM buys, sells, exchanges and/or transfers securities based upon the investment strategy.

DWM's management using the investment strategy complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the investment strategy, with a safe harbor from the definition of an investment company.

Securities in the investment strategy are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to DWM's clients may

be limited. As further discussed in response to Item 12 (below), DWM allocates investment opportunities among its clients on a fair and equitable basis.

### **Item 9. Disciplinary Information**

DWM is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. DWM does not have any required disclosures to this Item.

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

DWM is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

As discussed above in Item 5, DWM may recommend that National Advisors Trust serve as custodian for certain investment management accounts. National Advisors Trust is a federally chartered trust company controlled by National Advisors Holdings, Inc. ("NAH"). DWM's principal, Thomas J. McFarland III, currently has an ownership interest of less than one percent (1%) in NAH. While DWM may recommend the services of National Advisors Trust for the reasons set forth in response to Item 12 (below), the recommendation of National Advisors Trust by DWM presents a conflict of interest because of Thomas Mr. McFarland's interest in NAH. Neither DWM nor Mr. McFarland directly receives any portion of the fees charged by National Advisors Trust but may receive distributions relative to his respective ownership interest in National Advisors Trust.

### **Item 11. Code of Ethics**

DWM has adopted a code of ethics in compliance with applicable securities laws ("Code of Ethics") that sets forth the standards of conduct expected of certain persons associated with the Firm ("associated persons"). The Firm's Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its associated persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires that certain of DWM's personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

DWM and its associated persons are permitted to buy or sell securities that the Firm also recommends to clients consistent with DWM's policies and procedures. Unless specifically permitted in DWM's Code of Ethics, none of DWM's Access Persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of DWM's clients.

When DWM is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when DWM is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. Notwithstanding the foregoing, trades may be executed on behalf of access persons and their family members when such trades are part of a block trade executed in compliance with the Firm's compliance policies and procedures. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by open-end mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more open-end mutual funds.

Clients and prospective clients may contact DWM to request a copy of its *Code of Ethics*.

### Item 12. Brokerage Practices

As discussed above, in Item 5, DWM generally recommends that clients utilize the brokerage and clearing services of TD Ameritrade. DWM also utilizes the brokerage and clearing services of Fidelity, Schwab, and/or National Advisors Trust.

Factors which DWM considers in recommending any broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. TD Ameritrade, Fidelity and Schwab enable DWM to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by TD Ameritrade, Fidelity, Schwab, and/or National Advisors Trust may be higher or lower than those charged by other Financial Institutions.

The commissions paid by DWM's clients comply with DWM's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where DWM determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. DWM seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other Financial Institutions with whom DWM and the Financial Institutions have entered into agreements for prime brokerage clearing services. DWM periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

The client may direct DWM in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution, and DWM will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial

Institutions with orders for other accounts managed by DWM (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, DWM may decline a client's request to direct brokerage if, in DWM's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless DWM decides to purchase or sell the same securities for several clients at approximately the same time. DWM may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among DWM's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among DWM's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that DWM determines to aggregate client orders for the purchase or sale of securities, including securities in which DWM's *Supervised Persons* may invest, DWM shall do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. DWM shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that DWM determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares will be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when such account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares will be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations will be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, DWM will exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares will be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist DWM in its investment decision-making process. Such research generally will be used to service all of DWM's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because DWM does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

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DWM receives from TD Ameritrade, Fidelity, Schwab, and/or National Advisors Trust, without cost to DWM, computer software and related systems support, which allow DWM to better monitor client accounts maintained at TD Ameritrade, Fidelity, Schwab, and/or National Advisors Trust. DWM receives the software and related support without cost because DWM renders investment management services to clients that maintain assets at TD Ameritrade, Fidelity, Schwab, and/or National Advisors Trust. The



software and related systems support may benefit DWM, but not its clients directly. In fulfilling its duties to its clients, DWM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that DWM's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits create an incentive for the Firm to choose one broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

### **RIA Groups**

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Additionally, DWM may receive the following benefits from TD Ameritrade through the TD Ameritrade Institutional Program, Fidelity through the Fidelity Institutional Wealth Services division and/or Schwab through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Firm's clients through their Institutional platforms; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information. Additionally, The Firm receives access to TD Ameritrade's portfolio rebalancing software, iRebal.

### **Brokerage for Client Referrals**

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The Firm does not consider, in selecting or recommending broker/dealers, whether the Firm receives client referrals from the Financial Institutions or other third party.

## **Item 13. Review of Accounts**

### **Review**

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For those clients to whom DWM provides investment management services, DWM monitors those portfolios as part of an ongoing process while regular account reviews are conducted on a periodic basis. The Firm makes available information regarding the performance, transactions, and holdings in a client's portfolio through a client portal sponsored by Black Diamond and encourages clients to regularly review such information through the client portfolio. For those clients to whom DWM provides financial modeling and/or consulting services, reviews are conducted on an "as needed" basis. Such reviews are conducted by one of DWM's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with DWM and to keep DWM informed of any changes thereto. DWM shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### **General Reports**

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom DWM provides investment advisory services may also receive a report from DWM that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance from time to time. Clients should compare the account statements they receive from their custodian with those they receive from DWM.

### **Financial modeling/Consulting Reports**

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Those clients to whom DWM provides financial modeling and/or consulting services will receive reports from DWM summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by DWM.

## **Item 14. Client Referrals and Other Compensation**

Firm employees may receive a bonus for new assets introduced to the Firm for management. DWM may also receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

## **Item 15. Custody**

The Advisory Agreement and/or the separate agreement with any Financial Institution generally authorize DWM and/ to debit client accounts for payment of the Firm's fees and to directly remit that those funds to the Firm in accordance with applicable custody rules. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to DWM.

In addition, as discussed in Item 13, DWM may also send periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from DWM.

### **Surprise Independent Examination**

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DWM is deemed to have custody (for reasons other than those discussed above), the Firm is required to engage an independent accounting Firm to perform a surprise annual examination of those assets and accounts over which it maintains custody. Any related opinions issued by an independent accounting Firm are filed with the SEC and are publicly available on the SEC's Investment Adviser Public Disclosure website. DWM does not have direct access to client funds as they are maintained with an independent qualified custodian.



### Item 16. Investment Discretion

DWM is given the authority to exercise discretion on behalf of clients. DWM is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. DWM is given this authority through a power-of-attorney included in the agreement between DWM and the client. Clients may request a limitation on this authority (such as requesting that certain securities not to be bought or sold). DWM takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Financial Institutions* to be utilized.

### Item 17. Voting Client Securities

DWM does not accept the authority to vote a client's securities (i.e., proxies) on their behalf. Clients receive proxies directly from the Financial Institutions where their assets are custodied and may contact the Firm at the contact information on the cover of this brochure with questions about any such issuer solicitations.

### Item 18. Financial Information

DWM does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, DWM is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. DWM has no disclosures pursuant to this Item.



**DARROW WEALTH  
MANAGEMENT**

Prepared by:



**MARKETCOUNSEL®**  
*The Adviser's Advisor®*