

ADV Part 2A – Investment Adviser Brochure

Item 1: Cover Page

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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 212.702.6608 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 or by any state securities authority.

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

Item 2 – Material Changes

Due to a series of changes in securities regulation, investment advisers are now required to deliver disclosure information in a narrative format. This brochure incorporates much of the same information previously provided within the Form ADV Part 2 but with expanded disclosures designed to provide further information about the firm, its practices, and its personnel.

Material updates to the information contained within this brochure will be provided to clients on an immediate basis. This section is designed to reflect such changes in summary form. Questions regarding the new brochure and/or the information contained herein may be directed to the firm and its representatives. Additional information about the firm and its representatives is also available on the SEC's website at www.adviserinfo.sec.gov.

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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, pension and profit sharing plans, charitable organizations, corporations and other businesses, individual retirement trusts and Keogh accounts. Our services are customized to your investment needs based upon a variety of factors such as your 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 mutual funds, exchange-traded funds (ETFs), and individual debt and equity securities in accordance with the client's investment objectives. You 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 (1) foreign exchange, (2) sovereign risk, (3) interest rates, (4) options and (5) futures market. At clients' request, we may also offer comments on tax advantaged investment, real estate trusts, estates, and certain insurance matters. The periodicals and special reports are issued to clients at no charge.

Assets Under Management

As of April 30, 2013, we had discretionary assets under management of \$22.5 million and non-discretionary assets under management of \$13.8 million.

Item 5 – Fees and Compensation

Our fee covers both financial planning and investment services. We generally charge asset-based fees for our services, which are negotiable up to 2% at our discretion prior to establishing the client account. Advisory fees are typically charged quarterly in advance, or may be charged in arrears 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. We may reduce or waive our advisory fees from time to time in our discretion.

Upon request, we may provide consultation on sophisticated financial matters, separate from our services described above. Our hourly rate for investment counseling is \$150.

The advisory fees do not include transactional fees assessed by the broker-dealer or custodial firm. The 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 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.

M&E's primary source of income is derived from commissions and compensation received from the sale of securities and other investment products M&E recommends to its clients, including asset-based distribution fees from the sale of mutual funds. M&E's supervised persons utilize the same practice to earn compensation from clients. We charge advisory fees in addition to commissions or markups, although advisory fees may be reduced or waived to offset the commissions or markups. Clients have the option to purchase investment products that M&E recommends through other broker-dealers or agents not affiliated with M&E. For more information about additional compensation, see Item 10 of this Brochure.

These practices present a potential conflict of interest and gives M&E or its supervised persons an incentive to recommend investment products based on the compensation received rather than on a client's needs. See our Code of Ethics, Item 11.

Clients may terminate the 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.

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 fee.

Item 7 – Types of Clients

M&E offers its investment advisory services to 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. Information gathered on this form includes the client's identity, investment goals 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

We rely on various sources of information to create a portfolio that is aligned with the client's needs. Our main sources include: (a) financial newspapers and magazines, (b) review of corporate activities, (c) research material prepared by others, (d) corporate rating services, (e) timing services, (f) annual reports, (g) prospectuses, (h) filings with the U.S. Securities Exchange Commission, (i) corporate executive contracts, (j) electronic data services, (k) attending meetings of securities analysts, and (m) meetings with and evaluations of corporate management.

You should be aware that different types of investments and strategies involve differing degrees of risk. You should not assume that future performance of any of your specific investments or

investment strategy, including those we recommend, will be profitable or equal any specific performance levels. Any investment or investment strategy involves some risk of loss you should be prepared to bear. Examples of risk you could face are:

- *Interest-rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, market values of bonds decline when interest rates rise because the rising rate makes the existing bond yields less attractive.
- *Market Risk:* External factors independent of a security's particular underlying circumstances may impact its price. The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions such as a political or social event or an economic condition.
- *Inflation Risk:* Inflation means a dollar today will not buy as much as a dollar next year. When any type of inflation is present your purchasing power decreases at the rate of inflation.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the 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 for example.
- *Reinvestment Risk:* The risk that future proceeds from investments may be reinvested at a potentially lower rate of return is reinvestment risk. This risk primarily relates to fixed income securities.
- *Business Risk:* Risks associated with a particular industry or a specific company may impact the value of investments. For example, oil-drilling companies have more business risk than electric companies since they depend on finding oil and then refining it efficiently before they may generate a profit. An electric company generates steady income customers who buy electricity no matter what the economic environment is like.
- *Liquidity Risk:* Liquidity means the ability to readily convert an investment into cash. Assets with a lot of interest from purchasers are generally more liquid. For example, Treasury Bills are highly liquid, while real estate properties are not.
- *Financial Risk:* A company with excessive borrowing to finance a business' operations increases the risk of profitability they may be unable to meet loan obligations during periods of financial stress.
- *Governmental Risk:* actions by the U.S. government or international governments may have a negative effect on the value of investments through budgetary and central bank monetary mismanagement.

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 of 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 provide an inaccurate estimate of earnings, which may be the basis for a 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 stock and yield oriented issues.

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

Item 9 – Disciplinary Information

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

Item 10 – Other Financial Industry Activities and Affiliations

Mr. Mahler is a registered representative of Brean Capital LLC. ("Brean Capital"), a registered broker-dealer effecting M&E's clients' securities transactions. Mr. Mahler is also Senior Vice President of Brean Capital.

Investment adviser representatives who are also registered representatives may recommend to clients or accept orders from clients to purchase or sell securities. Registered representatives

may earn customary 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 conflict of interest between the clients and the investment adviser representatives of M&E.

M&E has a fiduciary duty to act in the best interest of its investment advisory clients when recommending securities. The conflict of interest created by receipt of additional compensation may affect the judgment of the investment adviser representatives when making investment recommendations. M&E has adopted a Code of Ethics to address such conflicts. 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 prohibited from engaging in fraudulent, deceptive or manipulative conduct. The code 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 the firm, and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility. M&E's code of ethics will be provided to any client upon request.

It is the expressed policy of M&E to place clients' interests first. M&E supervised persons may invest in the same securities that the firm recommends to 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 the Code of Ethics.

Item 12 – Brokerage Practices

In selecting or recommending broker-dealers 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 the adviser's 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 an adviser's 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 the adviser 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.

We generally require that clients direct us to execute transactions through the broker-dealer firm of Brean Capital. Not all advisory firms require clients to direct brokerage. By directing brokerage M&E may be unable to achieve most favorable execution of client transactions costing clients more money.

M&E does not receive any soft-dollar benefits. However, we may aggregate purchase and sell orders of securities where there is a demand.

See Item 5 for additional fees and expenses that clients may incur.

Item 13 – Review of Accounts

1. Portfolio Management

The President 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 uninvested 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 on 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 exercises limited custody over client assets due to its authority to deduct advisory fees directly from the client account. Physical custody of all client funds and securities are maintained by an unaffiliated qualified custodian. 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 advisory fees paid to M&E.

Clients should carefully review their account statements, and contact us if they have any questions concerning the advisory fees deducted.

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 assets.

M&E does not use margin in investment advisory accounts unless requested by the client.

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 all proxies and other solicitation materials from their qualified custodian.

Item 18 – Financial Information

M&E does not have any financial condition that is reasonable likely to impair its ability to contractual commitments to clients.

M&E has never been the subject of a bankruptcy petition.