

# Federal Prep Advisors, Inc.

## Firm Brochure - Form ADV Part 2A

*This brochure provides information about the qualifications and business practices of Federal Prep Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (631) 750-6499 or by email at: [info@federalprep.com](mailto:info@federalprep.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 Federal Prep Advisors, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Federal Prep Advisors, Inc.'s CRD number is: 282663.*

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*Registration does not imply a certain level of skill or training.*

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## **Item 2: Material Changes**

There are no material changes in this brochure from the last annual updating amendment of Federal Prep Advisors, Inc on 02/24/2020. Material changes relate to Federal Prep Advisors, Inc's policies, practices or conflicts of interests only.

- The firm has transitioned to registration with the United States Securities and Exchange Commission from its prior registration at the state level.

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## **Item 4: Advisory Business**

### **A. Description of the Advisory Firm**

Federal Prep Advisors, Inc. (hereinafter "FPAI") is a Corporation. The firm was formed in January 2016, and the principal owner is Michael Andrew Kerper.

### **B. Types of Advisory Services**

#### ***Portfolio Management Services***

FPAI offers ongoing portfolio management services based on the individual goals, objectives, time horizon, and risk tolerance of each client. FPAI creates an Investment Policy Statement for each client, which outlines the client's current situation (income, tax levels, and risk tolerance levels). Portfolio management services include, but are not limited to, the following:

- Investment strategy
- Asset allocation
- Risk tolerance
- Personal investment policy
- Asset selection
- Regular portfolio monitoring

FPAI evaluates the current investments of each client with respect to their risk tolerance levels and time horizon. Risk tolerance levels are documented in the Investment Policy Statement, which is given to each client.

FPAI seeks to provide that investment decisions are made in accordance with the fiduciary duties owed to its accounts and without consideration of FPAI's economic, investment or other financial interests. To meet its fiduciary obligations, FPAI attempts to avoid, among other things, investment or trading practices that systematically advantage or disadvantage certain client portfolios, and accordingly, FPAI's policy is to seek fair and equitable allocation of investment opportunities/transactions among its clients to avoid favoring one client over another over time. It is FPAI's policy to allocate investment opportunities and transactions it identifies as being appropriate and prudent, including initial public offerings ("IPOs") and other investment opportunities that might have a limited supply, among its clients on a fair and equitable basis over time.

#### ***Selection of Other Advisers***

FPAI may direct clients to third-party investment advisers. Before selecting other advisers for clients, FPAI will verify that all recommended advisers are properly licensed, notice filed, or exempt in the states where FPAI is recommending the adviser to clients.

### ***Services Limited to Specific Types of Investments***

FPAI generally limits its investment advice to mutual funds, fixed income securities, real estate funds (including REITs), insurance products including annuities, equities, ETFs (including ETFs in the gold and precious metal sectors), treasury inflation protected/inflation linked bonds, commodities or non-U.S. securities. FPAI may use other securities as well to help diversify a portfolio when applicable.

### **C. Client Tailored Services and Client Imposed Restrictions**

FPAI offers the same suite of services to all of its clients. However, specific client investment strategies and their implementation are dependent upon the client Investment Policy Statement which outlines each client's current situation (income, tax levels, and risk tolerance levels). Clients may impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs. However, if the restrictions prevent FPAI from properly servicing the client account, or if the restrictions would require FPAI to deviate from its standard suite of services, FPAI reserves the right to end the relationship.

### **D. Wrap Fee Programs**

A wrap fee program is an investment program where the investor pays one stated fee that includes management fees, transaction costs, fund expenses, and other administrative fees. FPAI does not participate in any wrap fee programs.

### **E. Assets Under Management**

FPAI has the following assets under management:

Discretionary Amounts:	Non-discretionary Amounts:	Date Calculated:
\$0	\$49,381,823	April 2020

## **Item 5: Fees and Compensation**

### **A. Fee Schedule**

#### ***Portfolio Management Fees***

Total Assets Under Management	Annual Fees
All Assets	1.00%

FPAI uses an average of the daily balance in the client's account throughout the billing period, after taking into account deposits and withdrawals, for purposes of determining the market value of the assets upon which the advisory fee is based.

These fees are generally negotiable and the final fee schedule is attached as Exhibit II of the Investment Advisory Contract. Clients may terminate the agreement without penalty for a full refund of FPAI's fees within five business days of signing the Investment Advisory Contract. Thereafter, clients may terminate the Investment Advisory Contract immediately upon written notice.

### ***Selection of Other Advisers Fees***

FPAI may direct clients to third-party investment advisers. FPAI will be compensated via a fee share from the advisers to which it directs those clients. The fees shared are negotiable and will not exceed any limit imposed by any regulatory agency. The notice of termination requirement and payment of fees for third-party investment advisers will depend on the specific third-party adviser selected. The fees charged by third-party advisers are in addition to the advisory fee charged by FPAI and will be set forth in the account agreement between the client and the third-party adviser.

## **B. Payment of Fees**

### ***Payment of Portfolio Management Fees***

Asset-based portfolio management fees are withdrawn directly from the client's accounts with client's written authorization on a quarterly basis. Fees are paid in arrears.

### ***Payment of Selection of Other Advisers Fees***

Fees are paid quarterly in arrears.

## **C. Client Responsibility For Third Party Fees**

Clients are responsible for the payment of all third-party fees (i.e. custodian fees, brokerage fees, mutual fund fees, transaction fees, etc.). Those fees are separate and distinct from the fees and expenses charged by FPAI. Please see Item 12 of this brochure regarding broker-dealer/custodian.

## **D. Prepayment of Fees**

FPAI collects its fees in arrears. It does not collect fees in advance.



## **E. Outside Compensation For the Sale of Securities to Clients**

Neither FPAI nor its supervised persons accept any compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

FPAI does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

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

FPAI generally provides advisory services to the following types of clients:

- ❖ Individuals
- ❖ High-Net-Worth Individuals

There is no account minimum for any of FPAI's services.

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

### **A. Methods of Analysis and Investment Strategies**

#### ***Methods of Analysis***

FPAI's methods of analysis include Modern portfolio theory.

**Modern portfolio theory** is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various asset.

#### ***Investment Strategies***

FPAI uses long term trading or short term trading.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **B. Material Risks Involved**

### ***Methods of Analysis***

**Modern portfolio theory** assumes that investors are risk adverse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

### ***Investment Strategies***

**Long term trading** is designed to capture market rates of both return and risk. Due to its nature, the long-term investment strategy can expose clients to various types of risk that will typically surface at various intervals during the time the client owns the investments. These risks include but are not limited to inflation (purchasing power) risk, interest rate risk, economic risk, market risk, and political/regulatory risk.

**Short term trading** risks include liquidity, economic stability, and inflation, in addition to the long-term trading risks listed above. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **C. Risks of Specific Securities Utilized**

Clients should be aware that there is a material risk of loss using any investment strategy. The investment types listed below (leaving aside Treasury Inflation Protected/Inflation Linked Bonds) are not guaranteed or insured by the FDIC or any other government agency.

**Mutual Funds:** Investing in mutual funds carries the risk of capital loss and thus you may lose money investing in mutual funds. All mutual funds have costs that lower investment returns. The funds can be of bond “fixed income” nature (lower risk) or stock “equity” nature.

**Equity** investment generally refers to buying shares of stocks in return for receiving a future payment of dividends and/or capital gains if the value of the stock increases. The value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environments.

**Fixed income** investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities, although individual bonds may be the best known type of fixed income security. In general, the fixed income market is volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation linked bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal. Risks of investing in foreign fixed income securities also include the general risk of non-U.S. investing described below.

**Exchange Traded Funds (ETFs):** An ETF is an investment fund traded on stock exchanges, similar to stocks. Investing in ETFs carries the risk of capital loss (sometimes up to a 100% loss in the case of a stock holding bankruptcy). Areas of concern include the lack of transparency in products and increasing complexity, conflicts of interest and the possibility of inadequate regulatory compliance. Precious Metal ETFs (e.g., Gold, Silver, or Palladium Bullion backed “electronic shares” not physical metal) specifically may be negatively impacted by several unique factors, among them (1) large sales by the official sector which own a significant portion of aggregate world holdings in gold and other precious metals, (2) a significant increase in hedging activities by producers of gold or other precious metals, (3) a significant change in the attitude of speculators and investors.

**Real estate** funds (including REITs) face several kinds of risk that are inherent in the real estate sector, which historically has experienced significant fluctuations and cycles in performance. Revenues and cash flows may be adversely affected by: changes in local real estate market conditions due to changes in national or local economic conditions or changes in local property market characteristics; competition from other properties offering the same or similar services; changes in interest rates and in the state of the debt and equity credit markets; the ongoing need for capital improvements; changes in real estate tax rates and other operating expenses; adverse changes in governmental rules and fiscal policies; adverse changes in zoning laws; the impact of present or future environmental legislation and compliance with environmental laws.

**Annuities** are a retirement product for those who may have the ability to pay a premium now and want to guarantee they receive certain monthly payments or a return on investment later in the future. Annuities are contracts issued by a life insurance company designed to meet requirement or other long-term goals. An annuity is not a life insurance policy. Variable annuities are designed to be long-term investments, to meet retirement and other long-range goals. Variable annuities are not suitable for meeting short-term goals because substantial taxes and insurance company charges may apply if you withdraw your money early. Variable annuities also involve investment risks, just as mutual funds do.

**Commodities-** are tangible assets used to manufacture and produce goods or services. Commodity prices are affected by different risk factors, such as disease, storage capacity, supply, demand, delivery constraints and weather. Because of those risk factors, even a well-diversified investment in commodities can be uncertain.

**Non-U.S. securities-** present certain risks such as currency fluctuation, political and economic change, social unrest, changes in government regulation, differences in accounting and the lesser degree of accurate public information available.

**Past performance is not indicative of future results. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There are no criminal or civil actions to report.

### **B. Administrative Proceedings**

There are no administrative proceedings to report.

### **C. Self-regulatory Organization (SRO) Proceedings**

In July 2012, an arbitration was initiated against Michael Kerper \$360,000.00 in damages based on the claimant alleging unsuitable purchase of an insurance policy. The matter is no longer pending, as it was resulted in an award in June 2013 wherein Royal Alliance Associates Inc. \$142,000.00 of which Michael Kerper contributed \$0.

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

### **A. Registration as a Broker/Dealer or Broker/Dealer Representative**

Joseph Chiossone Insurance and annuity sales, College Adjunct Professor and EEO Investigator. Neither FPAI nor its representatives are registered as, or have pending applications to become, a broker/dealer or a representative of a broker/dealer.

## **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither FPAI nor its representatives are registered as or have pending applications to become either a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor or an associated person of the foregoing entities.

## **C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

Michael Andrew Kerper is a licensed insurance agent and is owner of Rainmaker Alliance LLC., and from time to time, will offer clients advice or products from those activities. Clients should be aware that these services pay a commission or other compensation and involve a conflict of interest, as commissionable products conflict with the fiduciary duties of a registered investment adviser. FPAI always acts in the best interest of the client; including the sale of commissionable products to advisory clients. Clients are in no way required to utilize the services of any representative of FPAI in connection with such individual's activities outside of FPAI.

Michael Andrew Kerper is owner of Federal Prep, an income tax preparation firm. From time to time, he may offer clients advice or products from those activities and clients should be aware that these services may involve a conflict of interest. FPAI always acts in the best interest of the client and clients are in no way required to the services of any representative of FPAI in connection with such individual's activities outside of FPAI.

Troy A Barrow is a licensed insurance agent. From time to time, he will offer clients advice or products from this activity. Clients should be aware that these services pay a commission and involve a possible conflict of interest, as commissionable products can conflict with the fiduciary duties of a registered investment adviser. Federal Prep Advisors, Inc. always acts in the best interest of the client; including in the sale of commissionable products to advisory clients. Clients are in no way required to implement the plan through any representative of Federal Prep Advisors, Inc. in their capacity as a licensed insurance agent.

## **D. Selection of Other Advisers or Managers and How This Adviser is Compensated for Those Selections**

FPAI may direct clients to third-party investment advisers. FPAI will be compensated via a fee share from the advisers to which it directs those clients. The fees shared will not exceed any limit imposed by any regulatory agency. This creates a conflict of interest in that FPAI has an incentive to direct clients to the third-party investment advisers that provide FPAI with a larger fee split. FPAI will always act in the best interests of the client, including when determining which third-party investment adviser to recommend to clients. FPAI will verify that all recommended advisers are properly licensed, notice filed, or exempt in the states where FPAI is recommending the adviser to clients.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics**

FPAI has a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance, Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. FPAI's Code of Ethics is available free upon request to any client or prospective client.

### **B. Recommendations Involving Material Financial Interests**

FPAI does not recommend that clients buy or sell any security in which a related person to FPAI or FPAI has a material financial interest.

### **C. Investing Personal Money in the Same Securities as Clients**

From time to time, representatives of FPAI may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of FPAI to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. FPAI will always document any transactions that could be construed as conflicts of interest and will never engage in trading that operates to the client's disadvantage when similar securities are being bought or sold.

### **D. Trading Securities At/Around the Same Time as Clients' Securities**

From time to time, representatives of FPAI may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of FPAI to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest; however, FPAI will never engage in trading that operates to the client's disadvantage if representatives of FPAI buy or sell securities at or around the same time as clients.

## **Item 12: Brokerage Practices**

### **A. Factors Used to Select Custodians and/or Broker/Dealers**

Custodians/broker-dealers will be recommended based on FPAI's duty to seek "best execution," which is the obligation to seek execution of securities transactions for a client on the most favorable terms for the client under the circumstances. Clients will not necessarily pay the lowest commission or commission equivalent.

FPAI will require clients to use TD Ameritrade Institutional, a division of TD Ameritrade, Inc. Member FINRA/SIPC.

#### ***1. Research and Other Soft-Dollar Benefits***

FPAI does not trade client's accounts and therefore receives no research, product, or services from a broker-dealer ("soft dollar benefits").

FPAI participates in the institutional advisor program (the "Program") offered by TD Ameritrade. TD Ameritrade offers to independent investment advisor services which include custody of securities, trade execution, clearance and settlement of transactions. FPAI receives some benefits from TD Ameritrade through its participation in the Program.

As disclosed above, FPAI participates in TD Ameritrade's institutional advisor program and FPAI may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between FPAI's participation in the Program and the investment advice it gives to its clients, although FPAI receives economic benefits through its participation in the Program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving FPAI participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have FPAI's fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to FPAI by third party vendors. TD Ameritrade may also pay for business consulting and professional services received by FPAI's related persons. Some of the products and services made available by TD Ameritrade through the Program may benefit FPAI but may not benefit its client accounts. These products or services may assist FPAI in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help FPAI manage and further develop its business enterprise. The benefits received by

FPAI or its personnel through participation in the Program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, FPAI endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by FPAI or its related persons in and of itself creates a conflict of interest and may indirectly influence the FPAI's choice of TD Ameritrade for custody and brokerage services.

## ***2. Brokerage for Client Referrals***

FPAI receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

## ***3. Clients Directing Which Broker/Dealer/Custodian to Use***

FPAI does not trade client's accounts.

### **B. Aggregating (Block) Trading for Multiple Client Accounts**

FPAI does not trade clients' accounts and therefore does not have the ability to block trade purchases across accounts.

## **Item 13: Review of Accounts**

### **A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews**

All client accounts for FPAI's advisory services provided on an ongoing basis are reviewed at least annually by Michael A Kerper, Chairman/CEO, with regard to clients' respective investment policies and risk tolerance levels. All accounts at FPAI are assigned to this reviewer.

### **B. Factors That Will Trigger a Non-Periodic Review of Client Accounts**

Reviews may be triggered by material market, economic or political events, or by changes in client's financial situations (such as retirement, termination of employment, physical move, or inheritance).

### **C. Content and Frequency of Regular Reports Provided to Clients**

Each client of FPAI's advisory services provided on an ongoing basis will receive a quarterly report detailing the client's account, including assets held, asset value, and calculation of fees. This written report will come from the custodian.



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

### **A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes)**

Besides than soft dollar benefits discussed in Item 12 above, FPAI receives compensation from third-party advisers to which it directs clients.

### **B. Compensation to Non – Advisory Personnel for Client Referrals**

FPAI does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

## **Item 15: Custody**

When advisory fees are deducted directly from client accounts at client's custodian, FPAI will be deemed to have limited custody of client's assets and must have written authorization from the client to do so. Clients will receive all account statements and billing invoices that are required in each jurisdiction, and they should carefully review those statements for accuracy.

## **Item 16: Investment Discretion**

FPAI does not have discretion over client accounts at any time.

## **Item 17: Voting Client Securities (Proxy Voting)**

FPAI will not ask for, nor accept voting authority for client securities. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

## **Item 18: Financial Information**

### **A. Balance Sheet**

FPAI neither requires nor solicits prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore is not required to include a balance sheet with this brochure.

**B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Neither FPAI nor its management has any financial condition that is likely to reasonably impair FPAI's ability to meet contractual commitments to clients.

**C. Bankruptcy Petitions in Previous Ten Years**

FPAI has not been the subject of a bankruptcy petition in the last ten years.