

Part 2A

**Item 1 – Cover Page**

# **OPTIMAL ASSET MANAGEMENT, INC.**

3175 Bowers Avenue, Office 3330  
Santa Clara, CA 95054

Tel: (650) 472-1187

**March 28, 2020**

This Brochure provides information about the qualifications and business practices of Optimal Asset Management, Inc. (the "Adviser"). If you have any questions about the contents of this Brochure, please contact the Adviser at the telephone number shown above. The information in this Brochure has not been approved by the U.S. Securities and Exchange Commission ("SEC") or by any state securities authority.

Optimal Asset Management, Inc. is registered as an investment adviser with the U.S. Securities and Exchange Commission. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provides you with information with which you can determine whether to hire or retain an adviser.

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

## Item 2 – Material Changes

This is the Adviser's amended filing on Form ADV. There are no material changes in this brochure from our last annual updating amendment on March 29, 2019. Material changes relate to our policies, practices or conflicts of interests only.

We will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days after the close of our fiscal year. We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting us at the telephone number on the cover page or [info@optimalam.com](mailto:info@optimalam.com).

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## Item 4 – Advisory Business

### *A. Description of the Company*

Optimal Asset Management, Inc. is a Delaware C-Corporation. The firm was founded in June 2012 by Vijay Vaidyanathan, who is the CEO. We provide sub-advisory and investment advisory services to investment advisors, trusts, qualified retirement plan sponsors and other business entities. We also provide investment software licensing unrelated to our advisory business. We are a fee-only firm and we recognize a fiduciary duty to each of our clients to act in their best interests at all times.

### *B. Types of Investment and Advisory Services Offered*

We offer separately managed accounts (SMAs).

Our SMAs are managed simultaneously by us. Each SMA generally has its own investment objectives and the trading strategy will differ accordingly. However, our core focus is in building broad-based stock and/or combination stock/ETF portfolios, which will vary depending on the objectives of the investor.

Though not part of our advisory service, Optimal Asset Management also provides access to Factor Allocator™ as a factor-based investing tool for advisors and other professional investors. This is a data analysis tool designed to help investment professionals educate themselves about how to implement factor investing in their core portfolios. This tool allows users to make investment decisions. Optimal Asset Management provides licensing for Factor Allocator to certain industry partners which are not deemed to be advisory clients of the firm.

### *C. Scope of Services*

Our process for managing separately-managed accounts differ based on whether the account size is large (“Institutional”) or small (“Individual”).

Institutional SMA clients (generally above \$25M account sizes) may define parameters on investing in certain securities or types of securities. Additional constraints may be imposed by such clients with respect to leverage, concentration, absolute risk, tracking error, and trading/rebalancing frequency, among other aspects. For institutional clients, we

work closely with 3rd party implementation partners and custodians as designated by the client.

For individual SMA clients, we have built an online interface which enables the client to provide suitability characteristics and to determine an appropriate investment strategy. In cases in which the client has questions, we offer email or phone-based support to help the client determine a suitable strategy.

#### *D. Wrap fee programs*

We do not participate in wrap fee programs.

#### *E. Assets Under Management*

The Advisor is an investment advisory firm. It is registered with the SEC. As of December 2019, we had \$889,716,013 in discretionary and \$1,738,538,933 in non-discretionary assets under management.

### **Item 5 – Fees and Compensation**

#### *A. Types of Compensation*

The fees for institutional SMA's are based on customer-specific negotiations/customization requirements, but are generally a certain fixed percentage of AUM (with a minimum asset size), possibly on a sliding scale for increased AUM for each client.

For individual, our fees start at 0.50% or \$100 flat fee per month. The fees are negotiable on higher asset balances or number of accounts per clients. For investors who open accounts with Apex Clearing, a qualified custodian, this fee includes all third party custodian and brokerage fees.

Though not part of our advisory service, Optimal Asset Management provides access to Factor Allocator as a factor-based investing tool for advisors and other professional investors. This tool is currently offered free for advisors and other professional investors, but Optimal may choose to charge for this tool in the future. Optimal Asset Management provides a fee-based license for Factor Allocator to certain industry partners which are not

deemed to be advisory clients of the firm.

### *B. Method of billing -Separately Managed Accounts*

Fees are generally calculated and paid monthly or quarterly based on the market value of the account at the end or as an average of the previous month or quarter. Exceptions are made to the published fee schedule under certain circumstances pursuant to a negotiated fee agreement with the client.

We follow the following process for our clients' protection:

- Each client account is separately held by a "qualified custodian";
- The custodian sends statements no less frequently than quarterly showing all disbursements from the account, including the amount of the advisory fee; and
- Each client has signed an Advisory agreement enabling us to be directly paid on these terms.

Either the client or Optimal Asset Management may terminate the investment advisory agreement at any time by providing written notice to the other party. Fees will be assessed on a pro-rata basis up to the date of cancellation.

### *C. Other Fees and Costs*

In addition to the management fee set forth above, separately managed account clients may pay some or all of the following costs and expenses to third parties:

*Custodial Fees:* Unless otherwise noted (e.g. clients who are custodied with Apex Clearing), all custody costs and expenses are charged by the custodian to the account.

*Trading Costs:* Unless otherwise noted (e.g. clients who are custodied with Apex Clearing), separately-managed account clients may pay transaction fees (ticket charges) which generally are charged by the custodian on a transaction-by-transaction basis.

*Transaction costs:* Separately-managed account clients may incur extra transaction costs due to bid-ask spreads, mark-ups or similar transaction costs in connection with

the purchase and sale of individual securities.

*D. Return of Unearned Management Fees*

OAM does not collect any prepaid or unearned advisory fees.

*E. Compensation from the Sale of Investment Products*

We do not accept compensation or commissions for the sale of securities or other investment products.

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

We currently do not manage any accounts on a performance-based fee.

## **Item 7 – Types of Clients**

We provide investment services to individual and institutional investors including, for example, Registered Investment Advisors, corporate pension and profit-sharing plans, charitable institutions, foundations and endowments.

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

Our accounts (or “mandates”) with our institutional clients have to date been focused on building equity-based smart beta factor portfolios. The client engagement generally begins with a thoughtful interaction to discuss existing and desired risk factor exposures. Given the specific universe and mandate size, we build a portfolio with respect to capacity, rebalancing, and tracking error constraints as required, to match our client’s objectives. Generally, we refer to these portfolios as “Factor Portfolios.” We have been managing institutional mandates since 2013.

For our individual clients, we provide access to our sophisticated factor-based strategies akin to what we have built for our institutional clients, or to indices such as the S&P 500 and other S&P US equity indices. In certain cases, we directly implement these strategies in stocks. Our clients may hold a sophisticated, scientifically diversified portfolio

that generally consists of hundreds of stocks. This direct indexing investment vehicle also enables stock-level tax-loss harvesting at the client level.

We offer a customized, fully-automated, outcome-driven control panel that allows the client to define goals by setting a time horizon, downside floor and upside target for their account, which our engine then manages, with the goal of maximizing the chance of hitting the client-defined upside target without ending up below their downside floor at their horizon date. We implement this transparently in each account by allocating a dynamically computed portion of the account to a portfolio of US Government Treasuries with average duration similar to the horizon duration (enabled through low-cost fixed income ETFs).

It is important to note that the performance of any investment is subject to numerous factors which are neither within the control of, nor predictable by, Optimal Asset Management or our portfolio managers. These factors include a wide range of economic, political, competitive and other conditions which may affect investments in general or within specific industries or companies.

## **Item 9 – Disciplinary Information**

9.A through 9.C. We have no legal or disciplinary events to report involving Optimal Asset Management or Mr. Vaidyanathan or any other members of the Optimal Asset Management staff.

## **Item 10 – Other Financial Industry Activities and Affiliation**

10.A through 10.D. Our company and our management persons have no other financial industry affiliations or activities to report.

## **Item 11 – Code of Ethics**

We have adopted a code of ethics ("Code of Ethics") describing our high standard of business conduct and fiduciary duties to our clients. As a fiduciary, we have a responsibility to act solely in the best interest of each of our clients at all times. This fiduciary duty is considered the core principle for our Code of Ethics.

The Code of Ethics includes provisions relating to the confidentiality of client



information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things.

Subject to satisfying the Code of Ethics and applicable laws, our officers and employees are restricted from trading for their own accounts in securities which are being purchased for our clients during scheduled times of heavy rebalancings across multiple of our client accounts. Among other things, our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in our clients' best interest and (ii) implementing the decisions while, at the same time, allowing employees to invest for their own accounts. Because the Code of Ethics in some circumstances permits employees to invest in the same securities as clients, there is a possibility that employees might benefit inadvertently from market activity by a client in a security held by an employee.

All Employees re-review and re-sign the Code of Ethics as part of our annual compliance process. Furthermore, in addition to new hire orientations, the CCO conducts a live, face-to-face training session for all existing employees on an annual basis to reinforce and update on any new developments relating to compliance.

Anyone may request a copy of our Code of Ethics by contacting us at the telephone number on the cover page.

## **Item 12 – Brokerage Practices**

We receive no research or other soft dollar benefits from any of our broker-dealers. We also do not receive any client referrals from any broker-dealers. We do not require, request, or recommend that an institutional client direct us to execute transactions through a specified broker-dealer. In certain cases, an institutional client may prefer to use a broker of their choice. In these cases, we have reviewed the commissions charged and the quality of executions and are comfortable with the brokers chosen by our clients in these instances.

For our individual clients, OAM currently requires direct account clients to establish brokerage accounts with one of our selected custodians. We have chosen our custodians because they offer low transaction prices, best execution, and excellent integration tools and interfaces that allows OAM to trade client's assets most efficiently. When acting as a sub-adviser to another registered investment advisor or third party administrator (TPA), OAM executes all transactions through the TPA's custodian or the executing broker selected by the TPA's custodian, provided that OAM has an established relationship with that

custodian or agrees to establish one. Generally, trades are executed through a direct interface through the TPA's custodian or the broker-dealer affiliated with or otherwise selected by the client's custodian. Any rebates or other revenue of any kind resulting from account transactions are the property of Clients. OAM has no economic relationship with a broker-dealer that creates a material conflict of interest.

## **Item 13 – Review of Accounts**

Vijay Vaidyanathan, Armand Aquino, and our Operations team review our securities transactions and portfolios on a continuous basis.

We provide periodic reports to each client, which includes a performance report and consolidated inventory of the investments upon which we exercise investment discretion. Monthly or quarterly statements from the account custodian(s) are sent to each separate account client directly from the corresponding brokers, banks, mutual funds, etc., which hold the client's investments. These statements disclose the assets and their market value in the custodian's custody.

We strongly encourage our clients to review the monthly or quarterly account statements they receive from their custodians.

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

We do not utilize any solicitors or pay any compensation for client referrals.

We do not receive any economic benefit, directly or indirectly, from any third party for advice rendered to our clients.

## **Item 15 – Custody**

Custody means holding, directly or indirectly, client funds or securities or having any authority to obtain possession of them. The SEC and the State of California have rules and regulations which are designed to safeguard client assets. We follow the rules of the SEC, which require us to follow the following procedures:

Custody: We manage assets in separately Managed Accounts held exclusively in the client's name, and do not commingle client assets.

Maintain Accounts with Qualified Custodians: We have all client funds and securities, except shares of mutual funds, maintained by a "qualified custodian" (i.e., a bank, registered broker-dealer) in separate accounts for each client. Although we may recommend a custodian, the client may choose its own provided that OAM has or is willing to establish a relationship with that custodian. Shares of mutual funds and exchange traded funds are held by the fund's transfer agent.

Periodic Account Statements: Each custodian furnishes account statements to our clients no less frequently than quarterly. This statement, at a minimum, identifies the amount of funds and of each security in the account at the end of the quarter and all transactions in the account during the quarter.

## **Item 16 – Investment Discretion**

We manage separate accounts on a discretionary basis and generally allow for limitations to be placed on our investment authority, provided they are contained in the signed investment advisory agreement or inputted by the client via our online interface.

## **Item 17 – Voting Client Securities**

For those circumstances when our separate account institutional clients grant us the direct authority to vote proxies, the Advisor has retained Broadridge ("Broadridge") to assist in the proxy voting process. Armand Aquino manages the firm's relationship with Broadridge and ensures that all proxies are voted according to clients' specific instructions and the Advisor's general guidance. Broadridge will also retain certain required documentation associated with proxy voting.

With respect to our individual clients, OAM does not vote proxies. Clients receive their proxies directly from the custodian or transfer agent.

You can obtain a copy of our proxy voting policy and a record of votes cast by us on behalf of clients by contacting us at the address on the cover page.

## **Item 18 – Financial Information**

Optimal Asset Management, Inc. has no financial commitments that impair our ability

to meet contractual and fiduciary commitments to our clients, and we have not been the subject of a bankruptcy proceeding.