



Registered Investment Advisory

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Brochure dated March 26, 2020

This brochure provides information about the qualifications and business practices of Bennicas & Associates, Inc. If you have any questions about the contents of this brochure, please contact us by telephone at (650) 851-4601. 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 Bennicas & Associates, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note that registration with the SEC does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

This Brochure is dated March 26, 2020, and is an amended update from our last other-than-annual updated Brochure dated September 13, 2019.

This **Item 2, Material Changes** discussion is meant as a brief summary of material changes since the last other-than-annual updated Brochure of September 13, 2019.

**Item 4, Advisory Business, *Our assets under management***, has been updated to reflect assets under management as of December 31, 2019.

Currently, our Brochure may be requested free of charge by contacting us at (650) 851-4601 or [Georgia@bennicasassociates.com](mailto:Georgia@bennicasassociates.com).

Additional information about Bennicas and Associates, Inc. is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any person affiliated with Bennicas and Associates, Inc. who are registered, or required to be registered, as an investment advisor representative of Bennicas and Associates, Inc.

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## **Item 4 – Advisory Business**

### ***Who we are***

Bennicas & Associates, Inc. is a Registered Investment Advisory registered with the Securities and Exchange Commission since 1989.

We specialize in fee-based Asset Management services for clients with substantial investment funds. We provide comprehensive day-to-day administration of investment advisory accounts, including all security selection, trade placement, and portfolio evaluation and reporting.

Georgia L. Bennicas is the President of Bennicas & Associates, Inc., and is the only authorized representative of Bennicas & Associates, Inc. All references in this Brochure to Georgia Bennicas are to her in her capacity as authorized representative of Bennicas and Associates, Inc.

### ***Our investment philosophy and goals***

At Bennicas & Associates, Inc., our main goal is conservative growth and preservation of capital. We seek to maximize total return while minimizing risk by designing portfolios composed primarily of diversified equities and highly rated bonds. This correlates with our basic principle of bottom-line value. We typically purchase only securities which we feel to be both a good current value and a good long-term value. While we occasionally implement short-term purchases (securities sold within one year), our main investment strategy involves long-term purchases (securities held at least one year). We do not engage in individual short sales, margin transactions or option writing, unless specifically directed to do so by you.

### ***Types of investments we manage***

We currently limit our purchases to the following types of securities (both domestic and foreign):

- publicly traded equities
- warrants
- exchange-traded funds (ETF's)
- commercial paper
- corporate debt instruments
- certificates of deposit
- municipal securities
- United States government and United States government agency securities
- publically traded foreign government bonds
- no-load mutual funds

Although we will not currently purchase any security type not listed above (unless directed to do so by you), we do reserve the right to hold or sell from your account other

types of securities if they are brought by you into your Asset Management Account. If we decide to hold the asset, we would normally charge management fees on the asset, and be considered to offer advice on that asset.

You may also, at your discretion, place other limitations on the positions that may be traded in your account. Any such restrictions must be in writing, and signed by both you and by Georgia Bennicas.

One type of investment that has at times received considerable attention is the Initial Public Offering, or IPO. We mention IPO's here because, while they represent an extremely small portion of our trading, they can potentially pose special difficulties when it comes to fair allocation of any IPO shares. That is because it is common, when participating in an IPO, to receive only a small portion of the shares requested. To address this, we developed a detailed policy outlining our procedures for allocating any shares received in IPO's. We offer here a very brief summary of that policy. Just as with any other investment, if Georgia elects to participate in a particular IPO, she allocates shares to accounts for which she feels that IPO is suitable. If we then receive enough fewer shares than requested that we cannot reallocate by proportionately reducing share amounts, we first allocate shares to any accounts whose owners specifically contacted us prior to the offering to request participation in that particular IPO, and then use a random drawing from the original allocation request to allocate any remaining shares. A full copy of our *IPO Policies and Procedures* is available to any client or prospective client upon request.

#### ***What services we provide to you on your Asset Management Account***

Asset Management services cover ongoing daily account management. This includes an initial review of your financial situation and objectives, ongoing (at least monthly) reviews of your account by Georgia, and the ongoing management of your account, including the purchase and sale of securities selected by Georgia for your account. Every quarter we send you an account summary detailing your current holdings, cost basis, and market values. This mailing may also include additional reports such as a summary of realized gains and losses. Upon your request we are happy to schedule an annual review meeting to review and update your financial situation and objectives, and discuss any changes in strategy. This review would include a summary of current holdings and market values, and might include additional reports such as analyses of portfolio performance and structure. Additional reports, analyses, telephone conversations and personal meetings related to the ongoing management of your account are typically available without additional charge upon request.

We pride ourselves on our reputation for providing you with a high level of personalized service and attention. All reviews and trading decisions are made by Georgia personally, guided by her opinion of what is in your best interests. Within the parameters of our screening structure, each account is individually tailored to meet your specific needs. Some of the factors Georgia considers when designing a portfolio include your risk

tolerance, tax situation, and income needs. And, of course, we hope to maintain close contact with you to ensure that the portfolio is attuned to your changing needs.

***Our assets under management***

As of December 31, 2019, we managed a total of \$211,712,328 in discretionary Asset Management Accounts. We did not manage any non-discretionary accounts.

***Other services provided***

The vast majority of our business involves managing Asset Management Accounts – accounts for which we provide ongoing daily account management (also known as investment supervisory services). On extremely rare occasions we may provide other types of services involving minimal management (non-investment supervisory services), or involving projects billed at an hourly rate. These services are described in Item 5.

***Wrap fee programs***

We do not participate in wrap fee programs.

## Item 5 – Fees and Compensation

### *Asset Management Accounts*

Almost every account we manage is an Asset Management Account. These are accounts for which we provide ongoing daily account management (also known as investment supervisory services, and described in Item 4). Investment Advisory fees for Asset Management Accounts are negotiable, and range from 0.00% to 1.50% annually. They are asset-based, which means that they are calculated based on a percentage (0.00% - 1.5% annually) of the value of the assets in your Asset Management Account.

Asset Management Accounts may be billed either in advance or in arrears, as determined by the individual Investment Advisory agreement between you and Bennicas & Associates, Inc. In either case, fees are billed at the beginning of each calendar quarter, and are based on the total value of the Asset Management Account at the close of the last business day of the preceding quarter.

For accounts that are billed in advance, fees are charged before services have been provided. (For example, services to be provided during Quarter 2 are billed for at the beginning of Quarter 2, based on the value as of the end of Quarter 1.) When a new account is set up, the initial quarterly fee is pro-rated for the number of days remaining in the current quarter and is based on the account value on the date assets are transferred to our management; or the initial fee is as negotiated between you and Bennicas & Associates, Inc. After the initial fee, there is no pro-rated fee for any assets you add to the account partway through the quarter, and there is no pro-rated credit for assets you withdraw during the quarter (except as specifically negotiated or in the case of an account termination - see ***Termination***, below).

For accounts that are billed in arrears, fees are charged after services have been provided. (For example, services provided during Quarter 1 are billed for at the beginning of Quarter 2, based on the value as of the end of Quarter 1.) When a new account is set up, the first fee is pro-rated for the number of days during which it was under management during the preceding quarter. After the initial bill, there is no pro-rated credit for assets you add to the account part way through the quarter (unless such an exemption is specifically negotiated), just as there is no pro-rated charge for assets you take out of the account during the quarter (except in the case of an account termination - see ***Termination***, below).

Since Investment Advisory fees are calculated based on account value, we would like to note that the *Account Management Policies and Procedures* section of our *Compliance Program* contains a discussion of how accounts are valued. To briefly summarize, we use the prices provided by the custodian of your account (except where the price of one custodian may override the price of another). A complete copy of our *Account Management Policies and Procedures* policy is available to any client or prospective client upon request.



Investment Advisory fees are deducted directly from your Asset Management Account. Our authority to do this is provided in the Limited Power of Attorney (discussed in Item 16) which you sign when setting up your account. Every quarter we send you a billing statement (Statement of Management Fees) detailing the fee calculation and amount.

***Asset Management Accounts with a flat fee structure***

In certain (very rare) cases we may negotiate a flat annual fee rather than an asset-based fee for an Asset Management Account. With the exception that this fee is flat rather than based on a percentage of quarter-end assets, the billing – whether in advance or in arrears as determined by the individual agreement - is identical to that described in the preceding section.

***Accounts not involving investment supervisory services***

In the extremely rare case where a client seeks minimal management not involving ongoing daily account management, we would negotiate a flat annual fee. With the exception that this fee is flat rather than based on a percentage of quarter-end assets, the billing (either in advance or in arrears as determined by the individual agreement) is identical to that described above. An example of minimal management without investment supervisory services might be the purchase of replacement investments only (for example, replacing bonds only as they come due). Another example might be if the account is not held at one of our preferred custodial brokers, with the result that we are unable to manage it on a daily basis due to lack of integration with our account management software. This type of account might not receive the account summary reports discussed in Item 13 (*Reports*). Apart from the minimal management and other differences discussed in this paragraph, all parts of this Brochure apply to an account in this category.

***Hourly fees***

If you seek additional non-related consultations or services (consultations or services not provided as part of the ongoing management of your account), the fee for such consultations or services is a negotiable \$450 per hour. In such a case we will tell you before any fees are incurred that the services you are requesting are considered additional non-related services subject to the hourly charge, so that you may determine whether you wish to proceed. Such fees are on an as-incurred rather than an ongoing basis, and are billed based on actual time spent by Georgia, rounded to the nearest quarter-hour. Such fees are due thirty days after receipt of our bill. Please be assured that Georgia is very generous in the amount of time that she gives to Investment Advisory clients as part of your regular Asset Management Account servicing, and it would be extremely rare for you to incur additional charges.

### ***Termination***

Any type of contract may be terminated by you at any time within five business days after signing our Statement of Understanding (our Investment Advisory management agreement), with no fees or liabilities owed to Bennicas & Associates, Inc. If your account is billed in advance and you prepaid any fees, we will promptly refund all of these fees to you.

After the five day grace period, the contract may be terminated by either party by means of a thirty-day written notice. If your account is charged in advance and management is terminated before the end of a billing period, we will promptly refund any prepaid unearned investment advisory fees pro-rata based on the number of days between the end of the required thirty-day notice period and the end of the quarter. If your account is charged in arrears, upon termination you will then be charged for any services already rendered, pro-rated to the date of termination. In either case, you will then assume all responsibility for your account from the date of termination.

### ***Other expenses that you might incur***

The above discussion has pertained specifically to Investment Advisory services provided by and Investment Advisory fees charged by Bennicas & Associates, Inc. You should be aware that you will also incur additional expenses – expenses charged not by us, but by other entities. Please note that we do not receive any portion of any of the commissions, fees or expenses discussed in this section; the only compensation we receive related to your Asset Management Account (or to any investment or transaction in your account) is our Investment Advisory fee discussed above.

Most obviously, the broker custodializing (holding) your account will normally charge commissions for trades, in the form of direct commissions and/or markups or markdowns. Item 12 (Brokerage Practices) of this Brochure discusses these trading costs in more detail. If we process a particular trade through a broker other than your account custodian, that broker will charge you a commission and/or markup or markdown for the trade. The custodian of your account may also at times charge you other fees. It is impossible to anticipate and list all such possible charges here, but examples might include trade-away fees if a trade is done through another broker, annual IRA or qualified plan administration charges, charges to obtain checks for an account, or charges related to handling a stock reorganization or issuing a stock certificate. All such charges would be disclosed in the paperwork provided to you by the custodializing broker, and we would never receive or profit from any such charges. (In fact, we are often able to have some of these charges waived or reduced for you at brokerage firms where we have many accounts custodialized.)

Also, a note about one type of investment – mutual fund shares: We occasionally purchase no-load mutual fund shares in your account when Georgia feels that such a purchase is in your best interests. Funds invested in a no-load mutual fund will pay the internal mutual fund advisory fee (built into the price of the fund) as well as our

Investment Advisory fee. Georgia takes this into account when determining whether to make such a purchase.

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

This item is not applicable to Bennicas & Associates, Inc. We do not charge performance-based fees. (Performance-based fees are fees based on a share of capital gains on, or a share of capital appreciation of, a client's assets.)

## **Item 7 – Types of Clients**

The vast majority of our clients are individuals, trusts, and individual retirement plans (IRA's or individual pension, profit sharing or 401(k) plans).

We typically will not accept Asset Management Accounts of less than \$1,000,000. However, we make exceptions to this guideline based on factors such as previous client relationships, family relationships to existing clients, and expectations for future additions to the account.

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

The main method of analysis used by Georgia is fundamental. Georgia relies on annual reports, prospectuses and SEC filings; on financial newspapers and magazines; on research materials prepared by various organizations and analysts; on company press releases; and on corporate rating services to do her analysis.

The main investment strategies used are long-term purchases with an emphasis on conservative growth and conservation of principal, although Georgia does also occasionally make some use of short-term purchases (securities held under a year). Georgia takes a broad perspective and utilizes both a macro- and microeconomic approach when making investment decisions in individual client accounts.

Investing in securities involves risk which you must be willing to bear. Because we invest primarily in individual stocks, bonds and other investment vehicles, clients incur market risk, including the risk of loss of capital.

## **Item 9 – Disciplinary Information**

Neither the firm nor any management person is or has been involved in any legal or disciplinary event listed in the instructions for this Brochure, or in any other legal or disciplinary event material to your evaluation of our advisory business or of the integrity of our management.

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

Neither the firm nor any management person has any relationship, arrangement or affiliation with any related person (i.e., a person or affiliate under common control with our firm) that is material to you or our Investment Advisory business.

However, a very small percentage of Georgia Bennicas' individual time is spent on a separate non-Investment Advisory business activity. This section discusses that business.

Georgia Bennicas as an individual is an insurance agent licensed in the State of California. In this capacity, she may sell insurance products to clients, but has not done so in several years, and does not anticipate doing so in the near future. Maintaining the license allows her to monitor insurance products she has sold to clients in the past, and she spends approximately one-quarter of one percent of her time monitoring such products for clients. She does not receive commissions or any compensation for monitoring these insurance products in the non-Investment Advisory business.

No insurance company is a related person to Georgia Bennicas, and this non-Investment Advisory business is not material to her Investment Advisory business. We do not feel that this other business creates a significant conflict of interest, since such a small percentage of Georgia's time is spent on the non-Investment Advisory business, and since she no longer sells insurance products.

We do not recommend or select other investment advisors for you, and we do not receive compensation directly or indirectly from such advisors. We do not have any business relationship with any other investment advisor.



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

### *Code of Ethics and Bennicas & Associates, Inc. Compliance Program*

We discuss here our business ethics, and by extension, some of the policies found in our *Compliance Program*.

We are committed to a business environment which recognizes that our foremost obligation is to always give primary importance to the best interests of our clients. With that in mind we have developed a comprehensive *Compliance Program*, to which we are all subject.

One critical section of our *Compliance Program* is our *Code of Ethics*. We offer here a very brief summary of our *Code of Ethics*, which is not meant to be in any way exhaustive. A full copy of our current *Code of Ethics* is available to any client or prospective client upon request.

Our *Code of Ethics* begins by listing Standards of Conduct which we deem to be core values. In general, these Standards of Conduct relate to our obligations to:

- act in the best interests of our clients
- be always fair, honest, professional and non-biased
- avoid conflicts of interest
- disclose material facts
- never engage in fraudulent, misleading or manipulative practices
- never misuse information
- keep material nonpublic client information confidential
- never misuse or disseminate material nonpublic information
- never serve on the board of a publicly traded company
- never act in a capacity which would give us custody over client assets (other than by the firm's ability to deduct management fees, and the ability to act on written standing letters of authorization (SLOA's) to move funds from client accounts to third-parties. An example would be moving funds from an IRA account to a joint checking account to satisfy an annual required minimum distribution.
- never accept a monetary gift from a client or anyone with whom we do business
- adhere to strict limits on the acceptance of any gift, favor or accommodation
- comply with all federal and state securities laws
- comply with all parts of the *Bennicas & Associates, Inc. Compliance Program*.

Our *Code of Ethics* also discusses our *Personal Trading Policy*, which we discuss in more detail below. In brief, this policy places certain restrictions on our personal trading, and requires the submission and review of Quarterly Personal Trading Reports and

Annual Personal Securities Holdings Reports. Additional restrictions are placed on personal trading in IPO's and private placements.

The *Code of Ethics* also contains sections on internal reporting, required records, and ongoing education.

***Participation or interest in client transactions and personal trading***

We do not recommend to you, or buy or sell for your account, securities or investment products in which we have a material financial interest. For example, we, as principal, do not buy securities from you or sell securities to you. We do not solicit your investment in a partnership for which we act as a general partner. We do not recommend to you an investment company for which we act as an investment advisor or general partner.

At times, however, when our personal interests coincide with those of clients, we may then invest personally in the same securities that we recommend to you. Since such investments could present a potential conflict of interest, we offer here a brief summary of our *Personal Trading Policy*, which is part of our *Compliance Program*.

First, we must obtain clearance from Georgia Bennicas prior to making any securities transaction for any personal account. "Personal accounts" include accounts in which we, our families (including spouses, minor children and adults living in the same household), and trusts of which we are trustees or in which we have a beneficial interest, are parties. Secondly, if on any given trading day purchases or sales for personal accounts coincide (meaning, if they are a buy or sell for the same specific security) with purchases or sales in client accounts, then the personal trades may be handled in one of two ways: 1) The personal trade order(s) may be combined into a block trade order(s) being made on the same day for client accounts, provided that Georgia has no reason to feel that adding the personal order(s) to the client block trade will negatively impact best execution for the clients for that specific transaction. If this is done, and if the block trade is not executed in its entirety (i.e., a partial fill, meaning that we are unable to buy or sell the full number of shares we requested), then client allocations are always filled before personal allocations. 2) If personal trade orders for a specific security are not combined into a block trade with client orders but rather placed as separate transactions, then the transaction(s) to purchase or sell a specific security for clients is always executed before transactions to purchase or sell that security for personal accounts. In any case, personal transactions should never be large enough to noticeably affect the market. Particular scrutiny is given to requests to trade in an IPO or private placement, and no IPO shares available to Bennicas & Associates, Inc. by firms where we custodialize client accounts may be allocated to personal accounts. We must also comply with certain reporting requirements pertaining to our personal holdings and trading.

The controls described above are meant to address the potential for conflicts of interest, both with any personal trading, and specifically when personal trades occur close in time to client trades for the same security. Trades occurring close in time present additional potential for conflicts of interest, since if personal trades are executed prior to client

trades, there could be the potential for personal trades to impact the market before the client trade occurs. That is why our policy specifies that personal trades that coincide with client trades must either be bundled into the same block trade, or executed after client trades, and that if a partial fill occurs client allocations are always filled before personal allocations. Additionally, our personal trades should never be large enough to noticeably affect the market. In our opinion these controls minimize the risk for conflict of interest.

***Non-Investment Advisory business commissions***

Georgia will never receive commissions in connection with the Investment Advisory business, or in connection with any Asset Management Account. However, as discussed in Item 10, Georgia does a small amount of business as an insurance agent, separate from her Investment Advisory business. If you should freely choose to purchase insurance products through Georgia (as insurance agent) outside of your Investment Advisory relationship with Bennicas & Associates, Inc., Georgia may receive commissions on those purchases. Such commissions would be fully and completely disclosed to you.

## **Item 12 – Brokerage Practices**

### ***The custodians and brokers we use***

This section discusses factors we take into account when recommending a custodial broker to you, or when electing to place a trade through a particular broker. As discussed later in Item 15, we do not maintain actual custody of your account, although we are deemed to have custody by our authority to withdraw management fees and to act upon your written standing letters of authorization (SLOA's) to move your funds to third-parties. An example would be moving funds from your IRA account to a joint checking account to satisfy your annual required minimum distribution. Your account must be held (custodialized) at an independent qualified custodian. The SEC has set standards for what constitutes a “qualified” custodian – generally, these include broker-dealers and banks. Your assets are held in a brokerage account by the qualified custodian, who executes buy or sell orders upon our instruction (as agreed to in the Limited Power of Attorney signed by you when you open your account, discussed further in Item 16). We do not open your account for you, although we may assist you in doing so.

While we may agree to work with your preferred broker, we strongly recommend that your account be held at one of our preferred custodial brokers. These brokers – currently Schwab and Fidelity – are ones which we have carefully selected because we feel that they provide “best execution” (see *How we select custodians and brokers*) to our clients. Not all advisors require or strongly recommend that their clients use a particular custodian.

We are not affiliated with Schwab or Fidelity (or any broker), and we do not share in the commissions or fees charged to you by any broker in connection with your Asset Management Account.

In addition to the custodial broker, we may elect to use other brokers to execute a particular trade. In this case, the trade would be executed by the other broker, but the funds and/or securities would be settled into your account maintained by your custodial broker.

### ***How we select custodians and brokers***

When recommending a broker to you – either as a custodian or for a particular trade – we try to determine what will provide “best execution” for you. “Best execution” means the most favorable terms for a transaction based on all relevant factors, including those discussed below. In particular when looking for a custodial broker, we are seeking a broker who will hold your assets and execute transactions on terms that, overall, are most advantageous when compared to other available custodians and their services. This is not a simple thing, but involves many factors which we take into account. The following sections offer a brief summary of the factors we consider.

- ***Commissions and other fees*** First, we must be certain that commission rates (and/or markups or markdowns) are reasonable. In the past, we were usually able to negotiate rates based on the total dollars that we had custodialized at any given broker. More recently, custodians have been basing commission rates largely on the dollar amount held at the custodian by all your household accounts, on whether you choose to go paperless (receive statements, confirms and other notices electronically), and on whether we place the trade electronically or verbally. When setting up a new account, we always tell you about any rates we have negotiated, to aid you in deciding where to custodialize your account. Alongside commission rates, we also look at the competitiveness of other fees, such as trade-away fees (fees charged if we place a trade through a broker other than the custodian), margin interest rates, and other service fees. Commission rates and other fees are not, however, the only thing we take into account. Because of these other factors (discussed below) which we consider to provide added value, you may pay commission rates (and/or markups or markdowns) higher than those available elsewhere.
- ***Reputation, financial strength and stability*** The reputation, financial strength and stability of the broker is of utmost importance to us, and is something we place great emphasis on.
- ***Execution ability*** We also look at the capability of the broker to execute, clear and settle trades (buy and sell securities for your account), and the ability of the broker to, when necessary, work a trade with skill and individuality. In most cases, placing a trade electronically is effective, and it usually results in a lower commission to you. In a few other cases we want to be able to talk with a trader and have him or her “work” the trade for us.
- ***Breadth of available investments*** In this category we are looking at the breadth of investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.) that the broker can both hold (custodialize) and that can be purchased and sold through the broker. Some brokers may also give us access for your account to institutional investments not typically available to retail customers.
- ***Ease*** Another factor we take very much into account, particularly with custodial brokers, is ease. This is the level of convenience and service to you, and the ease to us of working with the broker and obtaining information from the broker.

For your ease and convenience, we expect that a custodial broker should have reasonably local offices so that you could physically deposit a check or security if necessary, or pick up a withdrawal check. We also expect a custodial broker to (upon your written request) easily accommodate requests for transfers and payments to and from your accounts, including wire and check transfers and stock gifting. We expect a custodial broker to be easy to work with if you require special accommodations such as a registration change or a step-up in cost basis or a required minimum distribution calculation.

Another important part of ease is an integrated package of custody and trade. An integrated package of custody and trade is very advantageous to us as a small (staff-wise) firm. The ease of a simpler allocation process, of bundling trades into blocks (when this facilitates best execution for you), and of having trade activity, account activity and pricing information downloaded directly into our portfolio management software, saves us significant time and therefore money – and by extension can save you money. An additional direct benefit to you of an integrated package of custody and trade is that such a broker will generally not charge you a separate custody fee. For all these reasons, we are looking for custodial brokers who offer a strong integrated package.

It is absolutely necessary to us that the custodian be capable of providing timely and accurate direct download of your trading, account activity and pricing information into our computer systems. The technical ability of different brokers when it comes to interfacing with our portfolio management software differs greatly from broker to broker. This becomes especially critical when there is a change in the industry, such as the 2010-2013 change requiring brokers to track and report cost basis data. It is extremely important to both you and to us that your custodian be on top of all such issues and pro-active and accurate in working with us to make the information technology changes needed to address the issues.

Furthermore, any computer interface we have with a custodian requires a significant investment of time and resources on our part, both initially and daily. This strongly favors choosing one or two strong and capable brokers to recommend to you as custodial brokers, rather than using a large number of custodial brokers.

- ***Quality of service, past service and responsiveness*** We look at whether a broker has provided us with a long history of quality services (in all categories). We also look at how responsive the broker has been to our clients and to us during our relationship.
- ***Availability of investment research and tools and of other services and products provided to us by the broker*** Finally, we often receive unsolicited access to certain research and other services and products from brokers with whom we custodialize client accounts or place trades. This aspect – including how it affects client accounts and whether or not we take it into account when evaluating best execution – is discussed below (see *Research and other services or products provided to us by brokers*).

In summary, all of the factors discussed in the above sections relate to our obligation to obtain best execution for you, and we take all of these things into account when evaluating best execution and the reasonableness of a broker's commissions, and when selecting custodians or brokers to recommend to you.

***Research and other services or products provided to us by brokers***

We do not have any written or verbal soft-dollar arrangements with any broker. We do not have any agreements with brokers to buy in-house or third-party research, products or services for us with client brokerage commissions or with any type of credit from client commissions. We acquired nothing during our last year with client commissions, markups or markdowns.

However, as mentioned above, as part of our relationship with some brokers, we are given free access on an unsolicited basis (i.e., we do not have to request them) to certain research, services and products typically not available to the general public. These products and services are not tied to the amount of trading or commissions generated in client accounts, and we have no agreements requiring that we maintain a minimum amount of client assets with any providing brokers. However, some of these services or materials are a factor we take into account when evaluating and recommending brokers and determining the reasonableness of their commissions. Following is a discussion of the different categories of research, products and services we might receive, including whether they might directly or indirectly benefit you, whether they would benefit all or only some accounts, and whether or not we take them into account when evaluating best execution for you.

- ***Investment research and tools*** One category of services we may receive includes access to investment research and tools. These could be created or developed by the broker, or by a third party. We may use this research and these tools to assist us in making investment decisions for your account, so while not necessarily directly beneficial to you, they can benefit you indirectly. Such research and tools would typically be used to benefit all Asset Management Accounts, not just accounts custodialized at the broker providing the research or tools. We do take this category of services into account when evaluating best execution.
- ***Institutional services and access*** A second category of services we often receive includes access to institutional trading, custody and reporting, and access to certain institutional investments not generally available to retail customers of the broker, or available to retail customers only at significantly higher minimum investment levels. This category of services can be directly beneficial to you, and generally benefits all client accounts custodialized at the broker providing them (but not clients whose accounts are custodialized elsewhere). In general, however, institutional services and access are similar for any broker we would consider as a custodial broker. We do take this category of services into account when evaluating best execution.
- ***Products and services used to facilitate account management and administration*** A third category of services and products facilitates the management and administration of client accounts. These products and services are generally not directly beneficial to you, but can be indirectly beneficial to you as they aid in the management of your account. We discussed this above when

talking about ease and the importance to us of the ability of a custodial broker to interface with our portfolio management software. For example, we may receive software and other technology that provides access to your account data; facilitates trade order placement, execution and allocation and block trading; provides pricing information and other market data; facilitates the debiting of client fees; facilitates proxy voting; and otherwise assists with back-office functions. In most cases we would use many but not all of the offered products or services. These services would typically be used to service all accounts custodialized at the providing broker – although some of the services could be used to service client accounts held at other brokers. Typically the services and products provided to us by our preferred custodial brokers are similar, so any cross-benefits to clients with other custodians would most likely be mutual. As discussed in the previous section, certain of these services and products are extremely important to us and we definitely take them into account when evaluating and recommending brokers.

- ***Products and services used to aid business management*** A fourth category of services which may also be offered to us by brokers are services intended to help us manage our business. For example, a broker may provide newsletters or conferences on compliance issues, legal issues, information technology, business succession, marketing, practice management or other educational topics. A broker might also make available, again on an unsolicited basis, discounts on services from third-party vendors. Services in this category would most likely not directly or indirectly benefit you, and could present a potential conflict of interest. However, such services are made available on an unsolicited basis, and are not tied to the amount of trading, commissions generated, or total assets custodialized. Also, we typically do not take advantage of the majority of services offered in this category. In general, we often do take advantage of educational newsletters and webcasts regarding compliance, legal, and information technology issues, but usually do not take advantage of other offered services or products in this category. And finally, in order to minimize the potential for a conflict of interest, we do not take services or products in this category into account when evaluating best execution or recommending brokers.

In summary, while all of the research, services or products described above is provided to us on an unsolicited basis, and is not tied to the amount of trading we do, the commissions clients pay, or the total amount of client assets custodialized at the broker, all of these services or products can provide us with a benefit. This is because if they are useful to us, we do not need to produce or purchase them ourselves. This creates a conflict of interest to the extent that we do take some of these services into account when evaluating a broker and the reasonableness of their commissions. The full range of factors we take into account when evaluating a broker (including, as discussed above, some of the research, products and services provided to us by brokers) may well cause you to pay higher commissions (and/or markups or markdowns) than those available elsewhere. To some degree we have an incentive to select a broker based on our interest in receiving these services rather than on your interest in receiving the most favorable



execution of a trade. However, to minimize this potential conflict of interest, we only use brokers whose commissions and other fees we determine to be reasonable in relation to the value of all of the factors we take into account when evaluating brokers, including the brokerage and research services provided. And since the fourth category of services (*Products and services used to aid business management*) does not add to value to you, we do not take it into account when evaluating or recommending brokers.

Because none of the products and services in any of the above categories are tied to client commissions, we do not allocate them proportionately to client accounts based on the commissions generated by each account. As detailed in each section above, such products and services are generally used to benefit or service either all client accounts or only all client accounts custodialized at the providing broker.

We do not direct custody or transactions to a particular broker in exchange for any of these services or materials apart from our decision-making process outlined in the above section (*How we select custodians and brokers*).

#### ***Client referrals***

We do not have any agreements with brokers or third parties regarding referrals, and we do not consider client referrals from brokers or third parties when selecting or recommending custodians or brokers.

#### ***Directed Brokerage***

While we do not specifically forbid it, we do not normally use directed brokerage (a practice where you direct us to execute a trade through a particular broker). If you contact us and specifically request that we execute a particular trade through a particular broker we may try to accommodate your request (provided that we have a trading agreement with that broker), but we discourage directed brokerage. Directed brokerage can limit our ability to achieve best execution or negotiate commissions on your behalf, can limit your participation in block trades, and can increase your costs.

#### ***Aggregation of trades (block trading)***

As we have mentioned, one benefit to us and to you of custodializing many client accounts at a single broker is the facilitation of block trading. A block trade is when trade orders for several accounts are aggregated into one larger trade. We place a block trade when we believe that such a technique will facilitate best execution for clients. When a block trade is executed with any broker, each Asset Management Account involved participates at an average share price, and all transaction costs are split pro rata dependent on the number of shares purchased for each account, transaction costs per share, and the minimum transaction cost per account, if any.

## **Item 13 – Review of Accounts**

### ***Reviews***

Under normal circumstances, securities held in Asset Management Accounts are reviewed daily for price fluctuations. Securities on our “watch” list are also reviewed daily. We also monitor securities for current news, SEC and regulatory filings, reports from outside analysts, etc.

Each of your Asset Management Accounts is reviewed in detail at least monthly, with additional reviews triggered by either significant changes in market conditions or by a change in your needs. Both your account(s) and your objectives are reviewed in particular detail at the time of the annual meeting (described below).

Georgia Bennicas (President) personally performs all of these reviews.

### ***Reports***

You will receive a quarterly paper mailing from us containing an account summary for each of your Asset Management Accounts. This summary details current positions (securities held), their market values and their cost basis. Additional reports, such as realized gains and losses reports, may be included in the quarterly mailing. A Statement of Management Fees detailing your fee calculation for each account is also mailed to you at the close of each quarter.

Upon your request we are pleased to schedule an annual review meeting with Georgia, which is normally an in-person meeting. We would hope to review and update your entire financial situation and objectives, and discuss any changes in strategy. This review would include a written summary of current holdings and market values, and might include additional written reports such as realized gains and losses reports, and analyses of your portfolio performance and structure.

Additional reports, analyses, telephone calls and personal meetings relating to your Asset Management Account are typically available without additional charge whenever you request.

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

### ***Client referrals***

We do not directly or indirectly compensate any person for client referrals.

### ***Other compensation***

We do not receive cash from any non-client in connection with any Asset Management Account. We do not share in any broker commissions or any other fees. We do not have written or verbal soft-dollar arrangements with any firm. We have no affiliated brokers, and we do not receive referrals for placing trades with a particular broker.

We do receive some types of research and other support products and services from brokers with whom we custodialize accounts and place trades. These items are provided to us on an unsolicited basis, and are not tied to the amount of trading we do, the commissions clients pay or the total assets we have custodialized with the broker, nor are they based on us giving particular investment advice - but they can provide us with an economic benefit. These items, how they benefit us, and the related conflicts of interest are described in detail in Item 12 (see *Research and other services or products provided to us by brokers*).

## Item 15 – Custody

Bennicas and Associates, Inc. is deemed to have custody (as defined by the SEC) over your funds or securities when we are authorized by you in writing to deduct management fees directly from your accounts.

We are also deemed to have custody over your assets when we have standing letters of authorization (SLOA's) signed by you authorizing us to direct your custodian to move assets from your account to a third-party. An example would be moving funds from your IRA account to a joint checking account to satisfy your annual required minimum distribution.

This authority is discussed in our management agreement with you (the *Statement of Understanding*), and is granted in the Limited Power of Attorney you sign when opening an Asset Management Account. (Please see Item 16 for an additional discussion of the Limited Power of Attorney.)

Your account is held (custodialized) at an independent qualified custodian, and that custodian maintains actual custody of your assets. Schwab and Fidelity are two independent qualified custodians where client accounts are currently held. The custodian of your account (for example, Schwab or Fidelity) will send you a statement detailing your account holdings and their values at least quarterly (but usually monthly). You will also receive a detailed account statement from us every quarter. You should carefully and promptly review all of the statements you receive – both those from your custodian and those from us. You should also be sure to carefully compare the statements you receive from the custodian of your account with those you receive from us.

## Item 16 – Investment Discretion

### ***Investment discretion***

We do use discretionary authority to manage your account. That means that we do not obtain your specific consent prior to effecting a trade in your account. This authority is discussed in our management agreement with you (the *Statement of Understanding*), and is granted in a Limited Power of Attorney (LPOA). The LPOA is a separate agreement, signed by you, which is usually provided by the broker holding your account. The LPOA gives us the authority to purchase and sell securities at our discretion in your Asset Management Account. This discretionary authority includes the discretion to determine which securities to buy or sell, the amount of the securities to buy or sell, (sometimes) the broker to be used for the transaction, and, to some extent, the commissions to be paid by you to the broker for the trade. Let's look at these issues a little more closely.

- ***Discretion to determine securities (and the amounts of those securities) to buy or sell*** We have discretion over the securities to be bought or sold, and over the amount of the securities to be bought or sold. We will, however, only purchase the types of securities mentioned in Item 4 (Advisory Business). Although we will not purchase any security type not listed there, we do reserve the right to hold or sell from your account other types of securities if your place or transfer them into your Asset Management Account.
- ***Discretion over broker to effect a trade*** We cannot determine the broker to have custody of your account (your “custodial broker”), nor can we set up an account on your behalf. You must choose a custodial broker and sign brokerage paperwork to set up the account. We note here that your account must be custodialized by an independent qualified custodian (as defined by the SEC, and as discussed in Items 12 and 15). Both Schwab and Fidelity, for example, are independent qualified custodians. The vast majority of trades are then placed through your custodial broker. However, in certain cases, if agreed to in writing by you in a LPOA or separate document, we may be given the authority to determine, at our discretion, the broker or dealer to execute specific trades. In such a case the sole determining factor in choosing the broker to be used is our determination of best execution for you. An example of our using our discretionary authority to determine the broker to execute a specific trade might be the purchasing of a specific bond or preferred stock through an agent with better access to that security.
- ***Discretion over commission rate*** Similarly, although you must initially set up an account with the broker maintaining custody and agree to the commissions charged by that broker, we may occasionally be able to negotiate discounted commission rates with a broker. Therefore, after an account is set up the commission rates may change at a later date if, for example, we are able to renegotiate a lower commission rate with the broker. Your consent is not required for such renegotiation of commissions. Your consent to a particular commission

rate is also not required when we are given authority to determine the broker to execute a particular trade, as discussed in the preceding paragraph. As always, however, we are obligated to make our decisions based on best execution for you.

We should note that our ability to negotiate discounted commission rates for you is less than it was in years past, when brokers negotiated commission rates based on the total dollars we held with them across all client accounts. Currently, Schwab and Fidelity usually base your commission rates on the total dollars you hold with them, on whether you elect to receive electronic statements and confirmations, and on whether we place the trade electronically or verbally with a trader. Therefore, our decision whether to place a trade electronically or verbally may impact your commission rate. Again, we make each trading decision based on what we feel will provide best overall execution for you.

#### ***Limitations to our discretionary authority***

We discussed above that we voluntarily limit our discretion to purchase securities to the types of securities listed in Item 4. We also limit our discretion in two other ways.

- First, we will not execute individual (i.e., not part of a fund, ETF or other investment vehicle listed in Item 4) short, option or margin transactions without your prior written consent.
- Secondly, we do not have the authority to make withdrawals or transfers from your account to a third party. Any such withdrawal or transfer must be requested in writing by you. With regards to the automatic deduction of management fees (which is authorized by you in the LPOA agreement), we always notify you in writing of such fees.

#### ***Additional restrictions***

You may, at your discretion, place other limitations on the securities that may be traded in your account. Any such restrictions must be in writing, and must be signed by both you and by Georgia Bennicas.

## Item 17 – Voting Client Securities

This section is a brief summary of our *Proxy Voting Policy*, a section of our *Compliance Program*. A full copy of this policy is available to any client or prospective client upon request.

Unless you elect in writing to vote securities yourself, we vote all securities on your behalf. This authority is granted in paperwork provided by your custodial broker and signed by you.

All security-voting forms (often known as proxies) and accompanying materials are reviewed by Georgia personally, and Georgia is responsible for making voting decisions. In deciding how to vote proxies on your behalf, Georgia must be guided solely by her determination of your best interests. For the most part this means what will, in her opinion, be most likely to maximize the value of the investment for you. Such a determination is, naturally, subject to varying opinion, but again, your best interests must be the goal. In forming her opinion Georgia may take into account such things as how long she anticipates holding the issue, the size of your position in the issue, and the costs of the proposal.

When voting securities, Georgia must also guard against potential conflicts of interest. Such a conflict might arise, for example, should she have a personal or business relationship with someone who has an interest in a particular proxy vote. If a case arises where Georgia feels there is a conflict between the firm's interests and yours, she will proceed in one of two ways. If she feels that she can still vote in your best interests, she will do so, documenting her rationale. If she feels that this is not possible, she will notify you in writing and request that you vote that particular proxy.

If you elected to have us vote proxies but wish to direct the vote on a particular solicitation, you may do so by notifying us as to how you want your shares voted. We must receive this notification in a clear manner and in enough time to forward it to the custodian by the deadline. Should you request that we vote your shares in a different manner after we have already submitted our voting, we will make a good faith effort to change the vote on your shares. We do not, however, guarantee that we will be able to do so. If you wish to know how a particular proxy was voted, you may get this information by calling or writing our office.

We note that we will not advocate actively in regards to any proxy.

## **Item 18 – Financial Information**

The Item 18 balance sheet requirement is not applicable to us because we do not require or solicit pre-payment of management fees six months or more in advance.

We do, however, have discretionary authority and are deemed to have custody of client funds because of our ability to deduct management fees, and act upon written standing letters of authorization (SLOA's) to move funds from your account to third-parties. An example would be moving funds from an IRA account to a joint checking account to satisfy an annual required minimum distribution.

We must therefore disclose to you any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to you. In that spirit, we confirm here that our current financial condition presents no danger to our ability to meet our contractual commitments to you.

We also confirm that we have not been the subject of any bankruptcy petition.