

# S.F. EHRLICH ASSOCIATES, INC.

SEC File # 801-113687

ADV Part 2A, Brochure

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**This Brochure provides information about the qualifications and business practices of S.F. Ehrlich Associates, Inc. (the “Registrant”). If you have any questions about the contents of this Brochure, please contact us at 908-789-1100 or [jzeltmann@sfehrlich.com](mailto:jzeltmann@sfehrlich.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about S.F. Ehrlich Associates, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to S.F. Ehrlich Associates, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## **Item 2           Material Changes**

There have been no material changes to this ADV Part 2A, Brochure, since the previous annual update filing on March 20, 2019.

Registrant's Chief Compliance Officer, John Zeltmann, remains available to address any questions about this Brochure.

## **Item 3           Table of Contents**

Item 1	Cover Page.....	1
Item 2	Material Changes.....	2
Item 3	Table of Contents.....	2
Item 4	Advisory Business .....	3
Item 5	Fees and Compensation .....	6
Item 6	Performance-Based Fees and Side-by-Side Management .....	8
Item 7	Types of Clients.....	8
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9	Disciplinary Information .....	11
Item 10	Other Financial Industry Activities and Affiliations .....	11
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	12
Item 12	Brokerage Practices .....	13
Item 13	Review of Accounts.....	15
Item 14	Client Referrals and Other Compensation .....	15
Item 15	Custody.....	15
Item 16	Investment Discretion.....	16
Item 17	Voting Client Securities.....	16
Item 18	Financial Information .....	16

#### **Item 4            Advisory Business**

- A. S.F. Ehrlich Associates, Inc. (the “Registrant”) is a New Jersey corporation formed in July 1996. The Registrant was initially registered as an investment adviser with the SEC, was then registered with various state agencies, and most recently transitioned back to SEC registration effective July 26, 2018. The Registrant is principally owned by Stanley Ehrlich who is the Registrant’s President.
- B. As discussed below, the Registrant offers to its clients (generally: individuals, high net worth individuals, trusts and estates) investment advisory services along with financial planning and consulting services upon request.

#### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage the Registrant to provide discretionary investment advisory services on a *fee-only* basis. The Registrant’s annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under the Registrant’s management. Before engaging the Registrant to provide investment advisory services, clients are required to enter into an Investment Advisory Agreement with Registrant setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the fee that is due from the client.

Registrant’s annual investment advisory fee compensates for investment advisory services, and, to the extent specifically requested by the client, financial planning and consulting services. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of the Registrant), the Registrant may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written agreement with the client.

Before Registrant provides investment advisory services, an investment adviser representative will ascertain each client’s investment objectives. Next, the Registrant will confirm the investment objectives and allocate investment assets accordingly. The Registrant currently generally allocates client investment assets among: exchange-listed securities, mutual funds, exchange traded funds (“ETFs”), individual bonds and bond funds, cash and cash equivalents on a discretionary basis. Once allocated, the Registrant provides ongoing monitoring and review of account performance and asset allocation as compared to client investment objectives, and may periodically execute account transactions based upon those reviews or other triggering events.

#### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

To the extent specifically requested by a client, the Registrant may determine to provide financial planning and/or consulting services (including investment and non-investment related matters) on a stand-alone separate fixed fee basis. Registrant’s planning and consulting fees are negotiable depending upon the level and scope of the services required and the professional(s) rendering the services. Before engaging the Registrant to provide financial planning or consulting services, clients are required to enter into either a Financial Planning and Consulting Agreement, or a Limited Consulting Agreement with Registrant setting forth the terms and conditions of the engagement (including

termination), describing the scope of the services to be provided, and a description of the applicable fee that will become due from the client

## **MISCELLANEOUS**

Limitations of Financial Planning and Non-Investment Consulting/Implementation Services. Registrant may provide financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. either as part of the investment advisory engagement or according to the terms and conditions of a stand-alone Financial Planning and Consulting Agreement. The Registrant does not serve as a law firm, accounting firm, or insurance agency, and no portion of Registrant's services should be construed as legal, accounting, or insurance implementation services. Accordingly, Registrant does not prepare estate planning documents, tax returns or sell insurance products. Unless specifically agreed in writing, neither Registrant nor its representatives are responsible to: implement any financial plans or financial planning advice; provide ongoing financial planning services; or provide ongoing monitoring of financial plans or financial planning advice. The client is solely responsible to revisit the financial plan or financial planning advice with Registrant, if desired. The client retains absolute discretion over all financial planning and related implementation decisions, and is free to accept or reject any recommendation from Registrant and its representatives in that respect. Registrant's financial planning and consulting services are completed upon communicating its recommendations to the client, upon delivery of the written financial plan, or upon termination of the applicable agreement. To the extent requested by a client, Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e., attorneys, accountants, insurance agents, etc.). Clients are under no obligation to engage the services of any recommended professional, who shall be solely responsible for the quality and competency of the services they provide. If the client engages any unaffiliated recommended professional, and a dispute arises related to the engagement, the client should seek recourse exclusively from and against the engaged professional.

Availability of Mutual Funds and Exchange Traded Funds. While the Registrant may allocate client investment assets to mutual funds and ETFs that are not available directly to the public, the Registrant may also allocate client investment assets to publicly-available mutual funds and ETFs that the client could obtain without engaging Registrant as an investment adviser. However, if a client or prospective client determines to allocate investment assets to publicly-available mutual funds and ETFs without engaging Registrant as an investment adviser, the client or prospective client would not receive the benefit of Registrant's initial and ongoing investment advisory services with respect to those assets or their relationship to other client assets. Other mutual funds, such as those issued by Dimensional Fund Advisors ("DFA"), are generally only available through selected registered investment advisers. Registrant may allocate client investment assets to DFA mutual funds. Therefore, upon the termination of Registrant's services to a client, restrictions regarding transferability and/or additional purchases of, or reallocation among DFA funds will apply.

Cash Positions. The Registrant may maintain cash and cash equivalent positions (such as money market funds) for defensive and liquidity purposes. Unless otherwise agreed in writing, all cash and cash equivalent positions will be included as part of assets under management for purposes of calculating the Registrant's investment advisory fee.

Portfolio Trading Activity. As part of its investment advisory services, Registrant will review client portfolios on an ongoing basis to determine if any trades are necessary based upon various factors, including but not limited to investment performance, fund manager tenure, style drift, account additions/withdrawals, the client's financial circumstances, and changes in the client's investment objectives. Based upon these and other factors, there may be extended periods of time when Registrant determines that trades within a client's portfolio are neither necessary nor prudent. Clients nonetheless remain subject to the fees described in Item 5 during periods of portfolio trading inactivity.

Retirement Plan Rollovers – No Obligation / Potential for Conflict of Interest. A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If the Registrant recommends that a client roll over their retirement plan assets into an account to be managed by the Registrant, such a recommendation creates a conflict of interest if the Registrant will earn a new (or increase its current) advisory fee as a result of the rollover. No client is under any obligation to roll over retirement plan assets to an account managed by Registrant. The Registrant's Chief Compliance Officer, John Zeltmann, remains available to address any questions regarding the conflict of interest presented.

Asset Aggregation / Reporting Services. Registrant may provide access to reporting services through one or more third-party aggregation / reporting platforms that can reflect all of the client's investment assets, including those investment assets that the client has not engaged the Registrant to manage (the "Excluded Assets"). Registrant's service for the Excluded Assets is strictly limited to reporting, and specifically excludes investment management or implementation. Because Registrant does not have trading authority for the Excluded Assets, the client (and/or another investment professional), and not Registrant, shall be exclusively responsible for directly implementing any recommendations for the Excluded Assets. Further, the client and/or their other advisors that maintain trading authority, and not Registrant, shall be exclusively responsible for the investment performance or related activity (such as timing and trade errors) pertaining to the Excluded Assets. The third-party aggregation / reporting platforms may also provide access to financial planning information and applications, which should not be construed as services, advice, or recommendations provided by Registrant. Accordingly, Registrant shall not be held responsible for any adverse results a client may experience if the client engages in financial planning or other functions available on the third party reporting platforms without Registrant's participation or oversight.

Client Obligations. In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains their responsibility to promptly notify the Registrant if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Registrant's previous recommendations and/or services.

Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Registrant) will be profitable or equal any specific performance level.

Disclosure Statement. A copy of the Registrant's written disclosure statement as set forth on Form ADV Part 2 shall be provided to each client prior to, or contemporaneously with, the execution of the applicable form of client agreement.

- C. The Registrant shall provide investment advisory services tailored specifically to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objectives. Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objectives. The client may, at any time, impose reasonable restrictions, in writing, on the Registrant's services.
- D. The Registrant does not participate in a wrap fee program.
- E. As of December 31, 2019, the Registrant had \$129,101,562 in client assets under management on a discretionary basis.

## **Item 5 Fees and Compensation**

- A. The client can determine to engage the Registrant to provide discretionary investment advisory services on a *fee-only* basis.

### **INVESTMENT ADVISORY SERVICES**

The client can engage the Registrant to provide discretionary investment advisory services on a negotiable *fee-only* basis. The Registrant's annual investment advisory fee is based upon a tiered percentage (%) of the market value of the assets placed under the Registrant's management (generally, between 0.75% and 1.0%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Up to \$1,000,000	1.00%
Balance exceeding \$1,000,000	0.75%

In limited circumstances, Registrant's investment advisory fee is negotiable at Registrant's discretion, depending upon objective and subjective factors including but not limited to: the amount of assets to be managed; portfolio composition; the scope and complexity of the engagement; the anticipated number of meetings and servicing needs; related accounts; future earning capacity; anticipated future additional assets; the professional(s) rendering the service(s); prior relationships with the Registrant and/or its representatives, and negotiations with the client. Certain legacy clients may have accepted different pre-existing service offerings from Registrant and may therefore receive services under different fee schedules than as set forth above. As a result of these factors, similarly situated clients could pay different fees, the services to be provided by the Registrant to any particular client could be available from other advisers at lower fees, and certain clients may have fees different than those specifically set forth above. Registrant's Chief Compliance Officer, John Zeltmann, remains available to address any questions regarding the above fee determination.

### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

To the extent specifically requested by a client, the Registrant may determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fixed fee basis. Registrant's financial planning and consulting fees are negotiable depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s), but generally range: from \$1,500.00 to \$5,000.00 on a fixed fee basis according to the terms and conditions of a Financial Planning and Consulting Agreement; or between \$500 and \$600 on a fixed fee basis according to the terms and conditions of a Limited Consulting Agreement.

- B. Clients may elect to have the Registrant's advisory fees deducted from their custodial account. Both Registrant's Investment Advisory Agreement and the custodial / clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures. In the limited event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. For investment advisory services, the Registrant shall deduct fees and/or bill clients quarterly in arrears based upon the market value of the assets on the last business day of the previous quarter. Financial planning and consulting fees are payable according to the terms and conditions of the applicable form of agreement, typically upon completion of the engagement.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Registrant generally recommends that Charles Schwab and Co., Inc., and its affiliates ("Schwab") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers charge transaction fees for effecting certain securities transactions according to their fee schedule, and they or their affiliated custodians also impose charges for custodial services / fees associated with maintaining the client's account. For mutual fund and ETF purchases, clients will incur charges imposed by the respective fund, which represent the client's pro rata share of the fund's management fee and other fund expenses. These fees and expenses are described in each fund's prospectus or other offering documents. The fees charged by the applicable broker-dealer/custodian, and the charges imposed by mutual funds and ETFs, are separate from and in addition to Registrant's advisory fee referenced in this Item 5. Registrant does not share in any portion of those fees or expenses.
- D. Registrant's annual investment advisory fee shall be prorated and paid quarterly, in arrears based upon the market value of the assets on the last business day of the previous quarter. The applicable form of agreement between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of such agreement. Upon termination: the Registrant will prorate and bill the client for the number of days that services were provided during the billing quarter, or refund any unearned fees as applicable.
- E. Neither the Registrant, nor its representatives accept compensation from the sale of securities or other investment products.

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

Neither the Registrant nor any supervised person of the Registrant accepts performance-based fees.

## **Item 7                    Types of Clients**

The Registrant's clients generally include individuals, high net worth individuals, and their affiliated trusts and estates. The Registrant generally requires an annual minimum fee of \$5,000 and a minimum asset level of \$500,000 for investment advisory services. The Registrant, in its sole discretion, may charge a lesser investment advisory fee, reduce or waive its minimum fee, and/or reduce or waive its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Clients who maintain assets with the Registrant below the minimum account size may pay a higher percentage rate than reflected in Item 5.A. above.

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

- A. The Registrant may utilize the following methods of security analysis:
- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices);
  - Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts);
  - Technical - (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices); and
  - Cyclical - (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

The Registrant executes investment strategies for each client based upon the client's individual and confirmed investment objectives. The Registrant's primary investment strategy is a strategic asset allocation utilizing a core and satellite approach. This means that Registrant focuses upon passively-managed mutual funds and exchange-traded funds as the core investments, and then adds actively-managed funds where it perceives opportunities for improvement. Portfolios are globally diversified in an attempt to control the risk associated with traditional markets. Other strategies may include long-term purchases (securities held at least a year), short-term purchases (securities sold within a year), and periodic rebalancing to align asset allocation to designated investment objectives.

Investment Risk. Investing in securities involves risk of loss that clients should be prepared to bear, including the loss of principal investment. Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Registrant) will be profitable or equal any specific performance level. Investment strategies such as asset allocation, diversification, or

rebalancing do not assure or guarantee better performance and cannot eliminate the risk of investment losses. There is no guarantee that a portfolio employing these or any other strategy will outperform a portfolio that does not engage in such strategies. While asset values may increase and client account values could benefit as a result, it is also possible that asset values may decrease and client account values could suffer a loss.

- B. The Registrant's methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks. To perform an accurate market analysis the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Registrant's primary investment strategies are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

- C. Currently, the Registrant generally allocates client investment assets among: exchange-listed securities, mutual funds, ETFs, individual bonds and bond funds, cash and cash equivalents on a discretionary basis in accordance with the client's investment objectives. Each type of investment has its own unique set of risks associated with it. The following provides a short description of some of the underlying risks associated with the types of investments that Registrant uses or recommends:

Market Risk. The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk may be caused by external factors (such as economic or political factors), but may also be incurred because of a security's specific underlying investments. Additionally, each security's price can fluctuate based on market movement, which may or may not be due to the security's operations or changes in its true value. For example, political, economic and social conditions may trigger market events which are temporarily negative, or temporarily positive.

Unsystematic Risk. Unsystematic risk is the company-specific or industry-specific risk in a portfolio that the investor bears. Unsystematic risk is typically addressed through diversification. However, as indicated above, diversification does not guarantee better performance and cannot eliminate the risk of investment losses.

Value Investment Risk. Value stocks may perform differently from the market as a whole and following a value-oriented investment strategy may cause a portfolio to underperform growth stocks.

Growth Investment Risk. Prices of growth stocks tend to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments than other stocks, making their prices more volatile.

Small Company Risk. Securities of small companies are often less liquid than those of large companies and this could make it difficult to sell a small company security at a desired time or price. As a result, small company stocks may fluctuate relatively more in price. In general, small capitalization companies are more vulnerable than larger companies to adverse business or economic developments and they may have more limited resources.

Commodity Risk. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments.

Foreign Securities and Currencies Risk. Foreign securities prices may decline or fluctuate because of: (i) economic or political actions of foreign governments, and/or (ii) less regulated or liquid securities markets. Investors holding these securities are also exposed to foreign currency risk (the possibility that foreign currency will fluctuate in value against the U.S. dollar).

Interest Rate Risk. Fixed income securities and fixed income-based securities are subject to interest rate risk because the prices of fixed income securities tend to move in the opposite direction of interest rates. When interest rates rise, fixed income security prices tend to fall. When interest rates fall, fixed income security prices tend to rise. In general, fixed income securities with longer maturities are more sensitive to these price changes.

Inflation Risk. When any type of inflation is present, a dollar at present value will not carry the same purchasing power as a dollar in the future, because that purchasing power erodes at the rate of inflation.

Reinvestment Risk. Future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate), which primarily relates to fixed income securities.

Credit Risk. The issuer of a security may be unable to make interest payments and/or repay principal when due. A downgrade to an issuer's credit rating or a perceived change in an issuer's financial strength may affect a security's value and impact performance. Credit risk is considered greater for fixed income securities with ratings below investment grade. Fixed income securities that are below investment grade involve higher credit risk and are considered speculative.

Call Risk. During periods of falling interest rates, a bond issuer will call or repay a higher-yielding bond before its maturity date, forcing the investment to reinvest in bonds with lower interest rates than the original obligations.

Regulatory Risk. Changes in laws and regulations from any government can change the market value of companies subject to such regulations. Certain industries are more

susceptible to government regulation. For example, changes in zoning, tax structure or laws may impact the return on investments.

**Mutual Fund Risk.** Mutual funds are operated by investment companies that raise money from shareholders and invests it in stocks, bonds, and/or other types of securities. Each fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. Mutual funds charge a separate management fee for their services, so the returns on mutual funds are reduced by the costs to manage the funds. While mutual funds generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market. Mutual funds come in many varieties. Some invest aggressively for capital appreciation, while others are conservative and are designed to generate income for shareholders. In addition, the client's overall portfolio may be affected by losses of an underlying fund and the level of risk arising from the investment practices of an underlying fund (such as the use of derivatives).

**Exchange Traded Fund Risk.** ETFs are marketable securities that are designed to track, before fees and expenses, the performance or returns of a relevant index, commodity, bonds or basket of assets, like an index fund. Unlike mutual funds, ETFs trade like common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold. In addition to the general risks of investing, there are specific risks to consider with respect to an investment in ETFs, including, but not limited to: (i) an ETF's shares may trade at a market price that is above or below its net asset value; (ii) the ETF may employ an investment strategy that utilizes high leverage ratios; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally.

## **Item 9            Disciplinary Information**

While Registrant has not been involved in any legal or disciplinary events that it considers material to a client's evaluation of its advisory business or the integrity of its management, it entered into a "Consent Agreement and Order" with the Commonwealth of Pennsylvania Department of Banking and Securities, Bureau of Licensing, Compliance and Examinations (the "Bureau") effective May 16, 2017. The Consent Agreement and Order reflects the Bureau's finding that Registrant violated a specific section of the Pennsylvania Securities Act of 1972 because it was not registered as an investment adviser in Pennsylvania from April 2012 until the effective date of the Consent Agreement and Order, by failing to submit applicable forms and fees.

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

- A. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

- C. There are no relationships or arrangements that are material to Registrant's advisory business or to its clients, with any of the types of entities requiring disclosure in this Item 10.C.
- D. The Registrant does not recommend or select other investment advisors for its clients.

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

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics, which serves to establish a standard of business conduct for all of Registrant's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940 and similar state law, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. Neither the Registrant nor any related person of Registrant recommends, buys, or sells for client accounts, securities in which the Registrant or any related person of Registrant has a material financial interest.
- C. The Registrant and/or representatives of the Registrant may buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of the Registrant's clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant's "Access Persons". The Registrant's securities transaction policy requires that Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date the Registrant selects; provided, however that at any time that the Registrant has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. The Registrant and/or representatives of the Registrant may buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the Registrant are in a

position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11 C, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Registrant's Access Persons.

## **Item 12 Brokerage Practices**

- A. In the event that the client requests that the Registrant recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Registrant to use a specific broker-dealer/custodian), Registrant generally recommends that investment management accounts be maintained at Schwab. Prior to engaging Registrant to provide investment management services, the client will be required to enter into a formal Investment Advisory Agreement with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in recommending Schwab or any other broker-dealer/custodian to clients, include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management fee.

### **1. Non-Soft Dollar Research and Additional Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant receives from Schwab (or could receive from other broker-dealer/custodians, unaffiliated investment managers, vendors, investment platforms, and/or product/fund sponsors) without cost (and/or at a discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. The support services that Registrant receives can include: investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or free consulting services, discounted and/or free travel and attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Registrant in furtherance of its investment advisory business operations. As indicated above, certain of the support services and/or products that Registrant can receive may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to

manage and further develop its business enterprise. The receipt of these support services and products presents a conflict of interest, because the Registrant has the incentive to recommend that clients utilize Schwab as a broker-dealer/custodian based upon its interest in continuing to receive the above-described support services and products, rather than based on a client's particular need.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of this arrangement. There is no corresponding commitment made by the Registrant to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement. The Registrant's Chief Compliance Officer, John Zeltmann, remains available to address any questions regarding the above and the conflict of interest presented.

2. The Registrant does not receive referrals from broker-dealers.
3. Directed Brokerage. The Registrant does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, a client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

If the client directs Registrant to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Registrant. Higher transaction costs adversely impact account performance. Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts. The Registrant's Chief Compliance Officer, John Zeltmann, remains available to address any questions regarding the above arrangement.

- B. To the extent that the Registrant provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

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

- A. For those clients to whom Registrant provides investment supervisory services, account reviews are conducted on an ongoing basis by the Registrant's Principals and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with the Registrant on an annual basis.
- B. The Registrant may conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, the Registrant receives economic benefits from Schwab including support services and/or products without cost or at a discount. Registrant's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of this arrangement. There is no commitment made by the Registrant to Schwab, or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement. Please refer to Item 12.A.1. for more information.
- B. The Registrant does not compensate, directly or indirectly, any person other than its representatives for client referrals.

### **Item 15            Custody**

The Registrant shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

To the extent that the Registrant provides clients with periodic account statements or reports, Registrant urges clients to carefully review those statements and compare them to custodial account statements. Registrant's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. The account custodian does not verify the accuracy of the Registrant's advisory fee calculations.

The Registrant engages in other practices and/or services on behalf of its clients that require disclosure at ADV Part 1, Item 9, which practices and/or services are subject to an annual surprise CPA examination.

#### **Item 16 Investment Discretion**

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, client shall be required to execute an Investment Advisory Agreement, naming the Registrant as client's attorney in fact and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Registrant on a discretionary basis may, at any time, impose restrictions, in writing, on the Registrant's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Registrant's use of margin, etc.).

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

- A. The Registrant does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Registrant to discuss any questions they may have with a particular solicitation.

#### **Item 18 Financial Information**

- A. The Registrant does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Registrant has not been the subject of a bankruptcy petition.

ANY QUESTIONS: The Registrant's Chief Compliance Officer, John Zeltmann, remains available to address any questions about the above disclosures and arrangements.