

# D'Orazio & Associates, Inc.

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ADV Part 2A, Firm Brochure

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**This Brochure provides information about the qualifications and business practices of D'Orazio & Associates, Inc. ("D'Orazio & Associates"). If you have any questions about the contents of this Brochure, please contact us at (703) 269-3100 or [jad@dorazioadvisors.com](mailto:jad@dorazioadvisors.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about D'Orazio & Associates is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to D'Orazio & Associates 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**

Since the February 13, 2019 annual update filing, this Brochure has been amended at Items 5.C., 12, and 14 regarding the broker-dealers / custodians that D’Orazio & Associates recommends for maintenance and servicing of client accounts. This Brochure has also been materially amended since that time at Item 5.A. to provide additional detail about how D’Orazio & Associates calculates its annual retainer fee for combined financial planning and investment management services moving forward.

ANY QUESTIONS: D’Orazio & Associates’ Chief Compliance Officer, Joseph A. D’Orazio, remains available to address any questions that a client or prospective client has about these changes or any other aspect of this Brochure.

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

- A. D'Orazio & Associates is a corporation formed on June 7, 2004 in the Commonwealth of Virginia. D'Orazio & Associates became registered as an Investment Adviser Firm in December 2004. D'Orazio & Associates is principally owned by Joseph A. D'Orazio, D'Orazio & Associates' President and Chief Compliance Officer.
- B. As discussed below, D'Orazio & Associates offers to its clients (generally: individuals, high net worth individuals, trusts and estates) with financial planning, investment and non-investment related consulting, and discretionary investment management services.

#### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage D'Orazio & Associates to provide discretionary investment advisory services on a fee-only quarterly retainer basis subject to the terms and conditions of a Financial Planning and Investment Management Agreement. Before D'Orazio & Associates provides investment advisory services, an investment adviser representative will ascertain each client's investment objectives. D'Orazio & Associates will then allocate investment assets consistent with the designated investment objectives. Once allocated, D'Orazio & Associates provides ongoing monitoring and review of account performance and asset allocation as compared to client investment objectives and may execute account transactions on a discretionary basis.

D'Orazio & Associates' Annual Advisor Compensation compensates for investment management services, and ongoing financial planning and consulting services that may include the following: general review of property and liability insurance coverage; income tax planning; cash management; estate planning; planning for children's education; retirement planning; retirement plan distribution analysis; real estate investment analysis; charitable gifting techniques; planning for special needs (e.g., disabled child, elder care, Medicaid qualification, etc.); divorce counseling; advanced estate planning techniques; practice management; planning for special situations (e.g., a business opportunity, an investment opportunity, buy-sell agreement, employment agreement, etc.).

#### **Passive Portfolio Program**

##### **Overview**

When consistent with a client's investment objectives, D'Orazio & Associates may offer portfolio management services through its Passive Portfolio Program (the "PPP"), an automated investment program through which clients are invested in a range of investment strategies D'Orazio & Associates has constructed and manages, each consisting of a portfolio that can include exchange traded funds ("ETFs"), mutual funds, and a cash allocation. The client may instruct D'Orazio & Associates to exclude up to three mutual funds or ETFs from their portfolio. The client's portfolio is held in a brokerage account opened by the client at Charles Schwab & Co., Inc. ("CS&Co."). D'Orazio & Associates uses the Institutional Intelligent Portfolios® platform ("Platform"), offered by Schwab Performance Technologies ("SPT"), a software provider to independent investment advisors and an affiliate of CS&Co., to operate the PPP. D'Orazio & Associates is independent of and not owned by, affiliated with, or sponsored or supervised by SPT, CS&Co., or their affiliates (CS&Co. and its affiliates are sometimes collectively referred to as "Schwab").

D’Orazio & Associates, and not Schwab, is the client’s investment adviser and primary point of contact with respect to the PPP. As between D’Orazio & Associates and Schwab, D’Orazio & Associates is solely responsible, and Schwab is not responsible, for determining the appropriateness of the PPP for the client, choosing a suitable investment strategy and portfolio for the client’s investment needs and goals, and managing that portfolio on an ongoing basis. D’Orazio & Associates has contracted with SPT to provide D’Orazio & Associates with the Platform, which consists of technology and related trading and account management services for the PPP. The Platform enables D’Orazio & Associates to make the PPP available to clients online and includes a system that automates certain key parts of its investment process (the “System”). The System includes an online questionnaire that helps D’Orazio & Associates determine the client’s investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that D’Orazio & Associates will recommend a portfolio via the System in response to the client’s answers to the online questionnaire. The client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, but D’Orazio & Associates then makes the final decision and selects a portfolio based on all the information it has about the client. The System also includes an automated investment engine through which D’Orazio & Associates manages the client’s portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the client is eligible and elects).

D’Orazio & Associates charges clients a fee for its services as described below under Item 5, Fees and Compensation. D’Orazio & Associates’ fees are not set or supervised by Schwab.

D’Orazio & Associates does not pay SPT fees for the Platform so long as it maintains \$100 million in client assets in accounts at CS&Co. that are not enrolled in the PPP. If D’Orazio & Associates does not meet this condition, then it must pay SPT an annual licensing fee of 0.10% of the value of its clients’ assets in the PPP. This arrangement presents a conflict of interest, as it provides an incentive for D’Orazio & Associates to recommend that clients maintain their accounts at CS&Co. Notwithstanding, D’Orazio & Associates may generally recommend to its clients that investment management accounts be maintained at CS&Co. based on the considerations discussed in Item 12 below, which mitigates this conflict of interest. D’Orazio & Associates’ Chief Compliance Officer Joseph A. D’Orazio, remains available to address this conflict of interest.

Clients enrolled in the PPP are limited in the universe of investment options available to them. For example, the investment options available are limited to ETFs and mutual funds, whereas D’Orazio & Associates recommends various other types of securities in its other services. The PPP is designed to provide guidance and professional assistance to individuals who are beginning the process of accumulating wealth. Clients will have access to their accounts and a financial interface online but will also have the opportunity to confer with D’Orazio & Associates with respect to their account. Please also refer to Item 8 below with respect to the investment risks associated with mutual funds and ETFs.

### **Rebalancing**

The System will rebalance a client’s account periodically by generating instructions to CS&Co. to buy and sell shares of funds and depositing or withdrawing funds through the “Sweep Program”, considering the asset allocation for the client’s investment strategy. Rebalancing trade instructions can be generated by the System when (i) the percentage allocation of an asset class varies by a set parameter established by D’Orazio &

Associates, (ii) D’Orazio & Associates decides to change the ETFs or their percentage allocations for an investment strategy or (iii) D’Orazio & Associates decides to change a client’s investment strategy, which could occur, for example, when a client makes changes to their investment profile or imposes or modifies restrictions on the management of their account. Accounts below \$5,000 may deviate farther than the set parameters as well as the target allocation of the selected investment profile. Rebalancing below \$5,000 may impact the ability to maintain positions in selected asset classes due to the inability to buy or sell at least one share of an ETF or mutual fund. For example, withdrawal requests may require entire asset classes to be liquidated to generate and disburse the requested cash.

### **Sweep Program**

Each investment strategy involves a cash allocation (“Cash Allocation”) that will be held in a sweep program at Charles Schwab Bank (the “Sweep Program”). The Cash Allocation will be a minimum of 4% of an account’s value to be held in cash, and may be higher, depending on the investment strategy chosen for a client. The Cash Allocation will be accomplished through enrollment in the Sweep Program, a program sponsored by CS&Co. By enrolling in the PPP, clients consent to having the free credit balances in their brokerage accounts at CS&Co. swept into deposit accounts (“Deposit Accounts”) at Charles Schwab Bank (“Schwab Bank”) through the Sweep Program. Schwab Bank is an FDIC-insured depository institution that is a Schwab affiliate. The Sweep Program is a required feature of the PPP. If the Deposit Account balances exceed the Cash Allocation for a client’s investment strategy, the excess over the rebalancing parameter will be used to purchase securities as part of rebalancing. If clients request cash withdrawals from their accounts, this likely will require the sale of fund positions in their accounts to bring their Cash Allocation in line with the target allocation for their chosen investment strategy. If those clients have taxable accounts, those sales may generate capital gains (or losses) for tax purposes. In accordance with an agreement with CS&Co., Schwab Bank has agreed to pay an interest rate to depositors participating in the Sweep Program that will be determined by reference to an index.

### **Compensation to Schwab Under the PPP**

Clients do not pay fees to SPT or brokerage commissions or other fees to CS&Co. as part of the PPP. However, Schwab receives other revenues including: (i) the profit earned by Charles Schwab Bank, a Schwab affiliate, on the allocation to the Schwab Intelligent Portfolios Sweep Program described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement; (ii) investment advisory and/or administrative service fees (or unitary fees) received by Charles Schwab Investment Management, Inc., a Schwab affiliate, from Schwab ETFs™ Schwab Funds® and Laudus Funds® that D’Orazio & Associates selects to buy and hold in the client’s brokerage account; (iii) fees received by Schwab from third-party ETFs that participate in the Schwab ETF OneSource™ program and mutual funds in the Schwab Mutual Fund Marketplace® (including certain Schwab Funds and Laudus Funds) in the client’s brokerage account for services Schwab provides; and (iv) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution.

## MISCELLANEOUS

Limitations of Financial Planning and Non-Investment Consulting/Implementation Services. To the extent requested by the client, D'Orazio & Associates may agree to provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. However, neither D'Orazio & Associates, nor any of its representatives, serves as an attorney, accountant, or as a licensed insurance agent to any D'Orazio & Associates' clients, and no portion of D'Orazio & Associates' services should be construed as legal, accounting, or insurance brokerage services. Accordingly, D'Orazio & Associates does not prepare estate planning documents, tax returns or sell insurance products. Unless specifically agreed in writing, neither D'Orazio & Associates nor its representatives are responsible to: implement or provide ongoing monitoring of any financial plans or financial planning advice. D'Orazio & Associates' consulting services are completed upon communicating its recommendations to the client. Upon client request, D'Orazio & Associates 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. Although D'Orazio & Associates' President and Chief Compliance Officer Joseph A. D'Orazio, is licensed as a Certified Public Accountant (CPA) and an attorney in his separate individual capacity, Mr. D'Orazio does not offer or provide accounting or legal services to any of D'Orazio & Associates' clients, and no corresponding CPA-client or attorney-client relationship is established. The client retains absolute discretion over all financial planning, consulting, and related implementation decisions, and is free to accept or reject any recommendation from D'Orazio & Associates and its representatives.

Portfolio Trading Activity. D'Orazio & Associates has a fiduciary duty to provide services consistent with the client's best interest. As part of its investment advisory services, D'Orazio & Associates will review client portfolios on an ongoing basis to determine if any changes 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 D'Orazio & Associates determines that changes to a client's portfolio are neither necessary nor prudent. Clients remain subject to the fees described in Item 5 below during periods of account trading inactivity.

Cash Positions. D'Orazio & Associates may maintain cash and cash equivalent positions (such as money market funds) for defensive and liquidity purposes. All cash positions are considered as part of D'Orazio & Associates' fixed Annual Advisor Compensation as described in Item 5.A. below.

Unaffiliated Private Investment Funds. While D'Orazio & Associates does not currently do so, it previously recommended that clients consider investments in unaffiliated private investment funds. D'Orazio & Associates' role relative to the private investment funds is currently limited to ongoing due diligence and investment monitoring services. If a client determined to become a private fund investor, the amount of assets invested in the fund(s) are included as part of "assets under management" for purposes of D'Orazio &

Associates calculating its Annual Advisor Compensation identified in Item 5 below. D'Orazio & Associates' clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

Private Investment Fund Risk Factors: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Private Investment Fund Valuation. If D'Orazio & Associates references private investment funds owned by the client on any supplemental account reports prepared by D'Orazio & Associates, the value(s) for all private investment funds owned by the client will reflect the most recent valuation provided by the fund sponsor. If the fund sponsor does not provide a post-purchase valuation, then the valuation will reflect the initial purchase price. The current value of any private investment fund could be significantly more or less than the original purchase price or the price reflected in any supplemental account report.

Client Obligations. In performing its services, D'Orazio & Associates 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 D'Orazio & Associates if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising D'Orazio & Associates' previous recommendations and/or services.

Disclosure Statement. A copy of D'Orazio & Associates' written disclosure statement as set forth on Form ADV Part 2 will be provided to each client prior to, or contemporaneously with, the execution of the Financial Planning and Investment Management Agreement.

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

Retirement Plan Rollovers – No Obligation / 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 D’Orazio & Associates recommends that a client roll over their retirement plan assets into an account to be managed by D’Orazio & Associates, that recommendation presents a conflict of interest if D’Orazio & Associates will earn a new (or increase its current) advisory fee as a result of the rollover. This conflict is somewhat mitigated by the fact that D’Orazio & Associates charges a fixed annual retainer fee for investment advisory services, which also compensates for advice given for “Assets Under Advisement” as described in Item 5.A. below. No client is under any obligation to roll over retirement plan assets to an account managed by D’Orazio & Associates. D’Orazio & Associates’ Chief Compliance Officer, Joseph A. D’Orazio, remains available to address any questions that a client or prospective client may have regarding the conflict of interest presented by such a rollover recommendation.

Asset Aggregation / Reporting Services. D’Orazio & Associates may provide access to reporting services that can reflect all of the client’s investment assets, including those investment assets that are not part of the assets that D’Orazio & Associates manages (the “Excluded Assets”). D’Orazio & Associates’ service for the Excluded Assets is strictly limited to reporting service, which does not include investment implementation. Because D’Orazio & Associates does not have trading authority for the Excluded Assets, the client (and/or another investment professional), and not D’Orazio & Associates, 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 D’Orazio & Associates, 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 reporting platform may also provide access to financial planning information and applications, which should not be construed as services, advice, or recommendations provided by D’Orazio & Associates. Accordingly, D’Orazio & Associates 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 platform without D’Orazio & Associates’ participation or oversight.

- C. D’Orazio & Associates shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client’s investment objectives. Thereafter, D’Orazio & Associates 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 D’Orazio & Associates’ services.
- D. D’Orazio & Associates does not participate in a wrap fee program.
- E. As of December 31, 2019, D’Orazio & Associates had \$1,032,893,421 in assets under management on a discretionary basis, and \$1,373,210 in assets under management on a non-discretionary basis.



## Item 5 Fees and Compensation

- A. The client can determine to engage D’Orazio & Associates to provide fee-only discretionary investment advisory services on a fixed quarterly retainer basis, or stand-alone financial planning services on a fixed fee basis as described below.

### INVESTMENT ADVISORY SERVICES

D’Orazio & Associates charges an annual fixed fee for ongoing financial planning and discretionary investment advisory services (the “Annual Advisor Compensation”), which is payable in quarterly installments. The amount of the Annual Advisor Compensation is based upon the agreed-upon and combined value of the client’s “Assets Under Advisement,” which means: all assets that D’Orazio & Associates’ will actively manage, plus the value of the client’s assets held in employer sponsored retirement plan accounts where D’Orazio & Associates’ is not authorized to execute trades, but for which the client is engaging D’Orazio & Associates to provide investment advice.

The Annual Advisor Compensation will be initially calculated based on the agreed-upon value of Assets Under Advisement as of the date the client signs the Financial Planning and Investment Management Agreement. Thereafter, the amount of the Annual Advisor Compensation will be recalculated based on the agreed-upon value of Assets Under Advisement established during the annual review meetings held between the Client and D’Orazio & Associates. The Annual Advisor Compensation is generally based on the market value of the client’s combined Assets Under Advisement as follows:

<u>Assets Under Advisement</u>	<u>Annual Advisor compensation</u>
Up to \$2,000,000	\$10,000.00
\$2,000,001 - \$4,000,000	\$15,000.00
\$4,000,001 - \$8,000,000	\$30,000.00
\$8,000,001 - \$15,000,000	\$50,000.00
\$15,000,001 +	Negotiable

In certain limited cases and as an exception to the above, D’Orazio & Associates will extend a courtesy discount to family members of existing clients whose Assets Under Advisement are below \$1,000,000. In those limited cases, the Annual Advisor Compensation is generally based on the market value of the client’s combined Assets Under Advisement as follows:

<u>Assets Under Advisement</u>	<u>Annual Advisor compensation</u>
\$100,000 - \$250,000	\$3,500.00
\$250,001 - \$400,000	\$4,625.00
\$400,001 - \$550,000	\$5,600.00
\$550,001 - \$700,000	\$6,275.00
\$700,001 - \$850,000	\$6,800.00
\$850,001 - \$1,000,000	\$8,000.00

Although D’Orazio & Associates’ Annual Advisor Compensation is generally non-negotiable, D’Orazio & Associates, in its sole discretion, may reduce its Annual Advisor Compensation based upon certain criteria (i.e., whether the client is participating in the PPP, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, complexity of financial affairs, related accounts, account composition, negotiations with client, etc.).

Certain legacy clients may have accepted different pre-existing service offerings from D'Orazio & Associates and may therefore receive services under different fee schedules than those set forth above. As a result of all of the above, similarly situated clients could pay different fees, which correspondingly impacts a client's net account performance. Moreover, the services to be provided by D'Orazio & Associates 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.

- B. Clients may elect to have D'Orazio & Associates' advisory fees deducted from their custodial account. Both D'Orazio & Associates' Financial Planning and Investment Management Agreement and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of D'Orazio & Associates' Annual Advisor Compensation and to directly remit that fee to D'Orazio & Associates in compliance with regulatory procedures. If D'Orazio & Associates bills the client directly, payment is due upon receipt of the invoice. D'Orazio & Associates will deduct fees or bill clients quarterly in advance based upon the agreed-upon and combined value of the Client's Assets Under Advisement.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, D'Orazio & Associates shall generally recommend that Schwab or National Financial Services LLC / Fidelity Clearing and Custody Solutions, an SEC-registered and FINRA member broker-dealer and its affiliates ("Fidelity") 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 D'Orazio & Associates' Annual Advisor Compensation.
- D. D'Orazio & Associates' Annual Advisor Compensation is prorated and paid quarterly, in advance. The applicable form of agreement between D'Orazio & Associates and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the agreement. Upon termination, D'Orazio & Associates will refund the pro-rated portion of any advanced advisory fee paid based upon the number of days remaining in the billing quarter or work performed.
- E. Neither D'Orazio & Associates, 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 D'Orazio & Associates, nor any supervised person of D'Orazio & Associates, accepts performance-based fees.

## **Item 7           Types of Clients**

D'Orazio & Associates' clients generally include individuals, high net worth individuals, trusts and estates. D'Orazio & Associates generally requires initial minimum account assets of \$100,000 under advisement as reflected in Item 5.A, and seeks to provide investment advisory services to clients having at least \$1,000,000 in assets designated for D'Orazio & Associates' management. D'Orazio & Associates, in its sole discretion, may reduce its Annual Advisor Compensation and/or waive or reduce its minimum asset preference based upon certain criteria (i.e., whether the client is participating in the PPP, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, complexity of financial affairs, related accounts, account composition, negotiations with client, etc.).

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

- A. D'Orazio & Associates advocates a long-term investment approach is the best strategy for its clients. Long term is defined by holding securities for at least one year. There will be some conditions when D'Orazio & Associates will advise its clients to hold securities for less than one year. Although there can be no guarantee, D'Orazio & Associates believes the strategy of being globally diversified is critical to achieving long-term success in the capital markets.

D'Orazio & Associates primarily uses fundamental analysis when evaluating investments. D'Orazio & Associates uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases.

D'Orazio & Associates' methods of securities analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria, as further described below:

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to derive the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

Investment Risk. Investing in securities involves risk of loss that clients should be prepared to bear, including the loss of principal investment. There is no specific approach to investing that guarantees success or positive returns. 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 D'Orazio & Associates) 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 similar 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. D'Orazio & Associates' 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 D'Orazio & Associates must have access to current/new market information. D'Orazio & Associates has no control over the dissemination rate of market information; therefore, unbeknownst to D'Orazio & Associates, certain analyses may be compiled with outdated market information, severely limiting the value of D'Orazio & Associates' 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.

D'Orazio & Associates' primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - 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.

In addition to the fundamental investment strategies discussed above, D'Orazio & Associates may also implement and/or recommend: short selling, use of margin, structured notes, options transactions, and/or inverse market strategies. Each of these strategies has a high level of inherent risk. (See discussion below).

Short Sales. Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e., Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

Margin Transactions. Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

If a client determines to use margin to purchase assets that D'Orazio & Associates will manage, D'Orazio & Associates would include the entire market value of the margined assets when computing its advisory fee, which would present a conflict of interest to the extent it increases D'Orazio & Associates' Annual Advisor Compensation. Another conflict of interest would arise if D'Orazio & Associates has an economic disincentive to recommend that the client terminate the use of margin. These conflicts are somewhat mitigated by the fact that D'Orazio & Associates charges a fixed retainer fee for investment advisory services based on Assets Under Advisement as agreed between the parties, which would be adjusted annually.

The terms and conditions of each margin loan are contained in a separate agreement between the client and the margin lender selected by the client, which terms and conditions may vary from client to client. Borrowing funds on margin is not suitable for all clients and is subject to certain risks, including but not limited to the following: increased market risk, increased risk of loss, especially in the event of a significant downturn; liquidity risk for the leveraged security; the potential obligation to post collateral or repay the margin if the margin lender determines that the value of collateralized securities is no longer sufficient to support the value of the margin; and the risk that the margin lender may liquidate the client's securities to satisfy its demand for additional collateral or repayment; or the risk that the margin lender may terminate the margin at any time. Before agreeing to participate in a margin loan program, clients should carefully review the applicable margin agreement and all risk disclosures provided by the margin lender including the initial margin and maintenance requirements for the specific program in which the client enrolls, and the procedures for issuing "margin calls" and liquidating securities and other assets in the client's accounts.

Structured Notes. D'Orazio & Associates may purchase structured notes for client accounts. A structured note is a financial instrument that combines two elements, a debt security and exposure to an underlying asset or assets. It is essentially a note, carrying counterparty risk of the issuer. However, the return on the note is linked to the return of an underlying asset or assets (such as the S&P 500 Index or commodities). It is this latter feature that makes structured products unique, as the payout can be used to provide some degree of principal protection, leveraged returns (but usually with some cap on the maximum return), and be tailored to a specific market or economic view. In addition, investors may receive long-term capital gains tax treatment if certain underlying conditions are met and the note is held for more than one year. Finally, structured notes may also have liquidity constraints, such that the sale thereof prior to maturity may be limited.

Options. The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by D'Orazio & Associates shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio.

Although the intent of the options-related transactions that may be implemented by D'Orazio & Associates is to hedge against principal risk, certain of the options-related strategies (i.e., straddles, short positions, etc.), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct D'Orazio & Associates, in writing, not to employ any or all such strategies for their accounts. For detailed information on the use of options and option strategies, please refer to the Option Clearing Corp.'s Option Disclosure Document, which can be found at: <http://www.optionsclearing.com/components/docs/riskstoc.pdf> Hard copies may be ordered by calling 1-888-678-4667 or writing OCC, 1 North Wacker Drive, Suite 500 Chicago, IL 60606.

Inverse/Enhanced Market Strategies. D'Orazio & Associates may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be no assurance that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct D'Orazio & Associates, in writing, not to employ any or all such strategies for their accounts.

D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above strategies and the inherent risks involved.

- C. Currently, D'Orazio & Associates primarily allocates investment assets among various mutual funds and/or ETFs, individual equities, and individual bonds, on a discretionary basis in accordance with the client's designated investment objectives. As indicated above, in limited circumstances, D'Orazio & Associates may also allocate or recommend that clients allocate investment assets in and among structured notes and options.

Each type of security has its own unique set of risks associated with it, and it would not be possible to describe the specific risks of every type of investment. However, the following provides a short description of some of the underlying risks associated with investing in the types of securities to which D'Orazio & Associates allocates client investment assets:

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 and ETF Risks. An investment in a mutual fund or ETF involves risk, including the risk that the general level of security prices may decline, thereby adversely affecting the investment value. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities, which can result in the loss of principal. Mutual fund and ETF shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss. As such, a mutual fund or ETF client or investor may incur substantial tax liabilities even when the fund underperforms.

An ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or the number of securities held. ETFs in which the strategies invest have their own fees and expenses as set forth in the ETF prospectuses. ETFs may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk with derivatives is that some types can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative, or that the counterparty may fail to honor its contract terms, causing a loss for the ETF. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that an ETF could not close out a position when it would be most advantageous to do so. Some ETFs available are less than 10 years old. Accordingly, there is limited data available to use when assessing the investment risk of some of these ETFs. As a result, one or more of the following may occur: (i) poor liquidity in or limited availability of the ETFs, or (ii) lack of market depth causing the ETFs to trade at excessive premiums or discounts.

Mutual funds are operated by investment companies that raise money from shareholders and invest 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. Shares of mutual funds are distributed



and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes in the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro-rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. While clients and investors may be able to sell their ETF shares on an exchange, ETFs generally only redeem shares directly from shareholders when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

#### **Item 9            Disciplinary Information**

D'Orazio & Associates has not been the subject of any legal or disciplinary actions.

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

- A. Neither D'Orazio & Associates, 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 D'Orazio & Associates, 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. D'Orazio & Associates has no other relationship or arrangement with a related person that is material to its advisory business. Although D'Orazio & Associates' President and Chief Compliance Officer, Joseph A. D'Orazio, is licensed as a Certified Public Accountant (CPA) and an attorney in his separate individual capacity, Mr. D'Orazio does not offer or provide accounting or legal services to any of D'Orazio & Associates' clients, and no corresponding CPA-client or attorney-client relationship is established.
- D. D'Orazio & Associates does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. D'Orazio & Associates maintains an investment policy relative to personal securities transactions. This investment policy is part of D'Orazio & Associates' overall Code of Ethics, which serves to establish a standard of business conduct for all of D'Orazio & Associates' 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, D'Orazio & Associates also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by D'Orazio & Associates or any person associated with D'Orazio & Associates.

- B. Neither D'Orazio & Associates nor any related person of D'Orazio & Associates recommends, buys, or sells for client accounts, securities in which D'Orazio & Associates or any related person of D'Orazio & Associates has a material financial interest.
- C. D'Orazio & Associates and/or representatives of D'Orazio & Associates may buy or sell securities that are also recommended to clients. This practice may create a situation where D'Orazio & Associates and/or representatives of D'Orazio & Associates 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 D'Orazio & Associates 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 D'Orazio & Associates' clients) and other potentially abusive practices.

D'Orazio & Associates has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of D'Orazio & Associates' "Access Persons". D'Orazio & Associates' securities transaction policy requires that an Access Person of D'Orazio & Associates 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 D'Orazio & Associates selects; provided, however that at any time that D'Orazio & Associates has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. D'Orazio & Associates and/or representatives of D'Orazio & Associates may buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where D'Orazio & Associates and/or representatives of D'Orazio & Associates 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, D'Orazio & Associates has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of D'Orazio & Associates' Access Persons.

## **Item 12            Brokerage Practices**

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

Factors that D’Orazio & Associates considers in recommending Schwab or Fidelity (or any other broker-dealer/custodian to clients) include historical relationship with D’Orazio & Associates, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by D’Orazio & Associates’ clients shall comply with D’Orazio & Associates’ duty to seek best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where D’Orazio & Associates 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’s services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although D’Orazio & Associates 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, D’Orazio & Associates’ Annual Advisor Compensation.

Additional factors that D’Orazio & Associates considers in recommending Schwab or Fidelity are accounts that allow the client to:

- Select from a wide range of investment options including no-load, load mutual funds purchased with all loads waived and institutional mutual funds, certificates of deposit and individual stocks and bonds;
- Trade securities at deep-discounted commissions;
- Earn either taxable or federally tax-exempt money market income on any un-invested funds;
- Access money market funds using unlimited personalized checks, without monthly or annual fees of any kind; and
- Monitor all of the client’s investments with monthly all-in-one statement or online through the Internet.

### **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, D’Orazio & Associates receives from Schwab and Fidelity (or could receive from another broker-dealer/custodian, investment platform, unaffiliated investment manager, vendor, and/or mutual fund sponsor) without cost (and/or at a discount) support services

and/or products, certain of which assist D’Orazio & Associates to better monitor and service client accounts maintained at such institutions. The support services that D’Orazio & Associates can obtain may 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 gratis consulting services, discounted and/or gratis 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 D’Orazio & Associates in furtherance of its investment advisory business operations. Without limiting the above, Schwab provides D’Orazio & Associates and its clients, both those enrolled in the PPP and clients not enrolled in the PPP, with access to its institutional brokerage services—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers.

Schwab and Fidelity also make various support services available. Some of those services help D’Orazio & Associates manage or administer its clients’ accounts, while others help it manage and grow its business. The support services described below are generally available on an unsolicited basis (D’Orazio & Associates does not have to request them) and at no charge to D’Orazio & Associates. The availability of these products and services to D’Orazio & Associates is not based on D’Orazio & Associates giving particular investment advice, such as buying particular securities for its clients. Here is a more detailed description of those support services:

Schwab and Fidelity’s services to D’Orazio & Associates include access to broad ranges of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab and Fidelity include some to which D’Orazio & Associates might not otherwise have access or that would require a significantly higher minimum initial investment by D’Orazio & Associates’ clients. The services described in this paragraph generally benefit the client and the client’s account.

Schwab and Fidelity also make other products and services available to D’Orazio & Associates that benefit D’Orazio & Associates but may not directly benefit the client or their account. These products and services assist D’Orazio & Associates in managing and administering D’Orazio & Associates’ clients’ accounts. They include investment research produced by Schwab or Fidelity as applicable, or produced by third parties. D’Orazio & Associates may use this research to service all or some substantial number of D’Orazio & Associates’ clients’ accounts, including accounts not maintained at Schwab or Fidelity. In addition to investment research, Schwab and Fidelity also make available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of D’Orazio & Associates’ fees from D’Orazio & Associates’ clients’ accounts; and
- assist with back-office functions, recordkeeping, and client reporting.

Schwab and Fidelity also offer other services intended to help D'Orazio & Associates manage and further develop D'Orazio & Associates' business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants, and insurance providers.

Schwab or Fidelity may provide some of these services themselves, or arrange for third-party vendors to provide the services to D'Orazio & Associates. Schwab and Fidelity may also discount or waive their fees for some of these services or pay all or a part of a third party's fees. Schwab and Fidelity may also provide other benefits such as occasional business entertainment of D'Orazio & Associates' personnel.

The availability of services from Schwab and Fidelity benefits D'Orazio & Associates because D'Orazio & Associates does not have to produce or purchase them. D'Orazio & Associates does not have to pay for these services, and they are not contingent upon D'Orazio & Associates committing any specific amount of business to Schwab or Fidelity in trading commissions or assets in custody.

D'Orazio & Associates' clients do not pay more for investment transactions effected and/or assets maintained at Schwab or Fidelity as a result of these arrangements. There is no corresponding commitment made by D'Orazio & Associates to Schwab or Fidelity 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. D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above arrangements the conflicts of interest presented.

#### Brokerage Practices Under PPP

Client accounts enrolled in the PPP are maintained at, and receive the brokerage services of, Schwab, a broker-dealer registered with the SEC and a FINRA/SIPC member. While clients are required to use CS&Co. as custodian/broker to enroll in the PPP, the client decides whether to do so and opens its account with Schwab by entering into a brokerage account agreement directly with Schwab. D'Orazio & Associates does not open the account for the client. If the client does not wish to place his or her assets with CS&Co., then D'Orazio & Associates cannot manage the client's account through the PPP. Schwab may aggregate purchase and sale orders for ETFs across accounts enrolled in the PPP, including both accounts for D'Orazio & Associates' clients and accounts for clients of other independent investment advisory firms using the Platform.

As described above under Item 4, D'Orazio & Associates does not pay SPT fees for the Platform so long as it maintain \$100 Million in client assets in accounts at Schwab that are not enrolled in the PPP. In light of D'Orazio & Associates' arrangements with Schwab, D'Orazio & Associates may have an incentive to recommend that clients maintain their accounts with CS&Co. based on its interest in receiving Schwab's services that benefit its business rather than based on the client's interest in receiving the best value in custody services and the most favorable

execution of transactions. This presents a conflict of interest. When making such a recommendation, however, D'Orazio & Associates believes that its recommendation of Schwab as custodian and broker is in the best interests of its clients. It is primarily supported by the scope, quality, and price of Schwab's services and not Schwab's services that benefit only D'Orazio & Associates. D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.

2. D'Orazio & Associates does not receive referrals from broker-dealers.
3. Directed Brokerage. D'Orazio & Associates 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 D'Orazio & Associates 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 D'Orazio & Associates. As a result, clients 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 D'Orazio & Associates 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 D'Orazio & Associates. 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. D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that D'Orazio & Associates provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless D'Orazio & Associates decides to purchase or sell the same securities for several clients at approximately the same time. D'Orazio & Associates 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 D'Orazio & Associates' 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. D'Orazio & Associates shall not receive any additional compensation or remuneration as a result of such aggregation.

In addition to D'Orazio & Associates' portfolio management and other services, the PPP includes the brokerage services of Schwab, a broker-dealer registered with the Securities and Exchange Commission and a member of FINRA and SIPC. While clients are required to use Schwab as custodian/broker to enroll in the PPP, the client decides whether to do so and opens its account with Schwab by entering into an account agreement directly with Schwab. D'Orazio & Associates does not open the account for the client. If the client does not wish to place his or her assets with CS&Co., then D'Orazio & Associates cannot manage the client's account through the PPP. Schwab may aggregate purchase and sale orders for ETFs across accounts enrolled in the PPP, including both accounts for D'Orazio & Associates' clients and accounts for clients of other independent investment advisory firms using the PPP.

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

- A. For those clients to whom D'Orazio & Associates provides investment supervisory services, account reviews are conducted on an ongoing basis by D'Orazio & Associates' Principal and/or representatives. All clients are advised that it remains their responsibility to advise D'Orazio & Associates of any changes in their investment objectives and/or financial situation. All clients (in person or telephonically) are encouraged to review investment objectives and account performance with D'Orazio & Associates on an annual basis.
- B. D'Orazio & Associates 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 with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for the client accounts. The custodian's statement is the official record of the client's account and supersedes any statements or reports created on behalf of the client by D'Orazio & Associates. Those clients to whom D'Orazio & Associates provides investment supervisory services will also receive a report from D'Orazio & Associates summarizing account activity and performance no less than annually.

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

- A. As referenced in Item 12.A.1 above, D'Orazio & Associates receives economic benefits from Schwab and Fidelity including support services and products without cost or at a discount. D'Orazio & Associates' clients do not pay more for investment transactions effected and/or assets maintained at Schwab or Fidelity as a result of this arrangement. There is no corresponding commitment made by D'Orazio & Associates to Schwab or Fidelity 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 arrangements. D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above arrangements.
- B. Neither D'Orazio & Associates, nor any of its representatives, directly or indirectly compensates anyone for client referrals.

## **Item 15           Custody**

D'Orazio & Associates shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for the client accounts. Those clients to whom D'Orazio & Associates provides investment supervisory services will also receive a report from D'Orazio & Associates summarizing account activity and performance no less than annually.

To the extent that D'Orazio & Associates provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by D'Orazio & Associates with the account statements received from the account custodian.

The account custodian does not verify the accuracy of D'Orazio & Associates' advisory fee calculation.

## **Item 16           Investment Discretion**

The client can determine to engage D'Orazio & Associates to provide investment management services on a discretionary basis. Before D'Orazio & Associates assumes discretionary authority over a client's account, the client shall be required to execute Financial Planning and Investment Management Agreement granting D'Orazio & Associates full authority to buy, sell, or otherwise execute investment transactions involving the assets in the client's name held in the discretionary account.

Clients who engage D'Orazio & Associates on a discretionary basis may, at any time, impose restrictions, in writing, on D'Orazio & Associates' 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 D'Orazio & Associates' use of margin, etc.).

Clients that determine to engage D'Orazio & Associates on a non-discretionary basis must be willing to accept that D'Orazio & Associates cannot execute any account transactions without obtaining the client's prior consent to the transactions. Therefore, if D'Orazio & Associates would like to make a transaction for a client's account (including removing a security that D'Orazio & Associates no longer believes is appropriate, adding a security that D'Orazio & Associates believes is appropriate, or in the event of a market correction), and the client is unavailable, D'Orazio & Associates will be unable to execute the account transactions (as it would for its discretionary clients) without first obtaining the client's consent.



## **Item 17          Voting Client Securities**

- A. D'Orazio & Associates does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities 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.

With respect to the PPP, clients are required to submit an Issuer Communication and Release Information Form, or similarly named form, to be certain that they receive proxies and corporate actions directly from the issuer of securities. D'Orazio & Associates does not offer any consulting assistance regarding proxy issues to clients.

- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact D'Orazio & Associates to discuss any questions they may have with a particular solicitation.

## **Item 18          Financial Information**

- A. D'Orazio & Associates does not solicit fees of more than \$1,200.00, per client, six months or more in advance.
- B. D'Orazio & Associates 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. D'Orazio & Associates has not been the subject of a bankruptcy petition.

ANY QUESTIONS: D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.