

**Item 1 – Cover Page**

**Kelley Investments, LLC**

**dba Kelley Investments**

**CRD#119099**

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Del Mar, CA 92014

1-858-350-1010

[www.KelleyInvestments.com](http://www.KelleyInvestments.com)

February 17, 2021

This Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Kelley Investments. If you have any questions about the contents of this Brochure, please contact Craig P. Kelley at 1-858-350-1010. 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.

Kelley Investments is a registered investment adviser with the SEC; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about Kelley Investments and its investment adviser representatives is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Kelley Investments, LLC, dba Kelley Investments, has updated our ADV Part 2A Disclosure Brochure to reflect the following change(s):

- Item 4 – Advisory Business – Updated to: (i) disclose the Firm’s current assets under management as of December 31, 2019, 2019; and (ii) provide additional disclosures concerning our financial planning and pension consulting services.

Our previous version of Form ADV Part 2A was dated June 25th, 2020.

Pursuant to SEC rules, we will ensure that clients receive a summary of any material changes to this Brochure within 120 days of the close of our fiscal year end. Additionally, as we experience material changes in the future, we will send you a summary of our “Material Changes” under separate cover. For more information about the firm, please contact us at (858) 350-1010.

Additional information about Kelley Investments and its investment adviser representatives is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## ***Item 4 – Advisory Business***

### ***A. Description of Firm***

Kelley Investments, LLC (“We,” “Us,” “Our,” “Kelley Investments” or the “Firm”) is a privately held company founded in 2017, with its principal place of business in California, and is registered with the Securities and Exchange Commission (“SEC”) as an investment adviser. The Firm provides investment supervisory services on a discretionary and non-discretionary basis to certain clients described in Item 7 herein (“Clients”). The investment instruments we typically advise our clientele on include, but are not limited to, equities, fixed income securities, bonds, exchange traded funds (“ETFs”), mutual funds, and cash equivalent instruments. Please refer to Item 8 for additional information relating to the investment strategies pursued by the Firm and their associated risks.

### ***B. Principal Owners***

The Firm is a limited liability company having organized in the State of California and is owned directly by the Kelley Family Trust DTD September 22, 1994. The Firm is indirectly owned by Craig P. Kelley and Caren E. Kelley, who serve as Trustees to the Kelley Family Trust DTD September 22, 1994. Craig P. Kelley serves as the sole Manager to Kelley Investments, and in this role is responsible for all operational and day to day activities. Craig P. Kelley began his investment career in 1984 and has been a registered investment advisor since 1996. The Firm is noticed filed in our home state of California. We may conduct business in other states by claiming an exemption from registration.

### ***C. Types of Advisory Services Offered***

#### **1. Wealth Management Services**

Kelley Investments provides ongoing discretionary and non-discretionary wealth management services to our advisory Clients with managed accounts. The Firm utilizes both in-person meetings and/or telephonic interviews with Clients to gather information regarding each Client’s overall investment objectives, goals and risk tolerance to help determine the appropriate model portfolio for the Client’s managed account assets. It is of beneficial interest to the Client to provide accurate and candid information and promptly inform the Firm of any material changes in their circumstances so we can evaluate if investment adjustments to the Client’s managed account(s) are necessary. The Firm does not and will not assume any responsibility for the accuracy of the information provided by the Client. Clients may impose restrictions on investing in certain securities or types of securities in their managed accounts.

Client managed account assets are typically invested and managed based on a model portfolio of securities that appears to be most suitable to the Client's investment objectives and strategy determined for those account assets. While we will customize the model portfolios, for example to help ensure suitability and/or to incorporate Client restrictions, several Clients will be invested in the same or similar model portfolios at any given time.

As of the date of this Brochure, we offer a wide range of actively managed model portfolio strategies (collectively the "Kelley Portfolio Strategies") that range from more conservative and/or income generating, to aggressive growth. Further details on the Kelley Portfolio Strategies, including the risks pertaining to such strategies and their underlining securities, can be found in Item 8 below.

## **2. Financial Planning Services**

Our financial planning services range from comprehensive financial planning to more focused consultations, depending on the needs of each Client. Generally, we evaluate the Client's financial, business and investment information and make recommendations designed with the intention of achieving the Client's overall goals and objectives. Clients should understand that a conflict of interest exists because we have an incentive to recommend our own wealth management services as we receive compensation for such services. Advice and recommendations will at times also be given on non-securities matters. Clients always have the right to accept or reject any or all recommendations made by the Firm. Should Clients decide to act on such recommendations, Clients always have the right to decide with whom they choose to do so. Financial planning recommendations are based on the Client's financial situation at the time the recommendations are provided and are based on the information provided by the Client. In addition, certain assumptions are made with respect to interest and inflation rates, use of past trends and performance of the market and economy. Past performance is in no way an indication of future performance and we cannot offer any guarantees or promises that the Client's financial goals and objectives will be met. As a Client's financial situation, goals, objectives, or needs change, the Client is strongly urged to promptly notify the Firm. For more information on the risks associated with investing, please refer to Item 8, below.

We do not assess any independent fees for the performance of our financial planning services. However, the scope and nature of financial planning services are a factor used to determine the overall Wealth Management Fee assessed Clients should the Client choose to engage the Firm for ongoing advisory services. Please see Item 5 below for additional information concerning the Firm's fees.

### **3. Pension Consulting Services**

The Firm offers Pension Consulting Services to qualified and non-qualified retirement and deferred compensation plans. In general, these services typically include the review and/or development of an Investment Policy Statement (“IPS”); analysis, review and recommendation of investment selections; asset allocation advice; communication and education services where the Firm assists the plan sponsor in providing meaningful information regarding the retirement plan to its participants; investment performance monitoring and/or ongoing consulting. The plan fiduciary always has the right to seek independent advice about the appropriateness of any recommended services for the plan.

## ***D. Advisory Agreements***

### **1. Information Received by Clients**

At the onset of the Client relationship, Kelley Investments gathers information on each Client’s investment objectives, risk tolerance, time horizons and financial goals. We do not assume responsibility for the accuracy of the information provided by the Client and are not obligated to verify any information received from the Client or from any of the Client’s other professionals (e.g., attorney, accountant, etc.). Under all circumstances, Clients are responsible for promptly notifying us in writing of any material changes to the Client’s objectives, risk tolerance, time horizon, and financial goals. In the event that a Client notifies us of any changes, we will review such changes with the client and implement any necessary revisions to the Client’s portfolio.

### **2. Client Agreements and Disclosures**

Each Client is required to enter into a written agreement with Kelley Investments setting forth the terms and conditions under which the Firm shall render its services (the “Agreement”). In accordance with applicable laws and regulations, we will provide our Disclosure Brochure (ADV Part 2A), brochure supplement(s) (ADV Part 2B), Form CRS (ADV Part 3) and most recent Privacy Notice to each Client prior to or contemporaneously with the execution of the Agreement. The Agreement between Kelley Investments and the Client will continue in effect until terminated by either party pursuant to the terms of the Agreement. Neither Kelley Investments nor the Client may assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of the Firm shall not be considered an assignment. As further discussed in Item 15 below, Client’s assets will be custodied with a qualified custodian. All custodial and execution fees assessed for Client’s assets remain the sole responsibility of Client.

## ***E. Participation in Wrap Programs***

Kelley Investments does not participate in any wrap programs at this time.

#### ***F. Amount of Client Assets Managed***

As of 12-31-2020 we manage approximately \$122,147,168 on a discretionary basis, and approximately \$13,007,215 on a non-discretionary basis for total assets under management of \$135,154,383.

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

As described in greater detail below, Kelley Investments charges different fees based upon services provided. The specific fees charged by the Firm will be set forth in the Client's Agreement. Fees are negotiable under certain circumstances at the sole discretion of the Firm. In addition, the Firm has full discretion to waive its advisory fees in their entirety.

#### ***A. Wealth Management Fees***

For providing our Wealth Management Services, we assess an annual fee based on a percentage of the market value of the account. The annual wealth management fee charged ranges up to a maximum of 1.75% of the assets held in the account (including cash and cash equivalents). The exact Wealth Management Fee is set forth in the respective Client's Agreement, and is based on several factors, including but not limited to the following:

- The scope and nature of services requested by Client which might involve:
  - Active Investment Management
  - Wealth Management
  - Estate Planning and Wealth Transfer Strategies
  - Risk Management, Asset Protection, and Insurance Reviews
  - Strategies to Minimize Taxes
  - Retirement Plan Consulting
  - Retirement Income Strategies
  - Charitable Giving Strategies
  - Executive Services
  - Closely-held Business Owners Services
  - Behavioral Finance Consulting
- Wealth education meetings
- The complexity and time involved in delivering wealth management services
- The total amount of household assets under management
- The number and type of Client accounts
- Anticipated or requested frequency of Client interactions
- Client's historical investment activities
- The requested amount of our involvement/communications with other Client service providers (*i.e.*, accountants, CPAs, etc.).

Our annual compensation is due and payable monthly in arrears on the first business day of each calendar month. Our compensation is assessed based on the total market value of all assets held in Client account(s) as of the close of business on the last business day of the prior calendar month. We calculate the amount of our compensation each month in good faith from asset balances reflected on the Client's monthly account statement provided by the third-party custodian, and we fully disclose this amount to Clients as part of their monthly account statements. Our monthly calculation formula is:

$$(\text{Ending month account(s) value} \times \text{Fee \%}) / 12 = \text{Wealth Management Fee}$$

Investment management fees will be deducted from the Client's account by the custodian as soon as practicable following the end of each applicable period. If requested by the Client, the Firm may, in its sole discretion, invoice Client directly for fees as opposed to debiting Client's account. In such cases, invoices are due and payable upon receipt. Any additional money and/or securities deposited or withdrawn by the Client are subject to the same billing procedures as outlined above. **Please note that we do not pro-rate fees.**

You will be notified by us in writing should there be any changes to the compensation schedule for your account(s). Your original compensation schedule will remain in effect for thirty (30) days after you have received our written notification of any changes. The new compensation schedule will automatically go into effect thirty (30) days after you have been notified by us in writing, unless you inform us otherwise.

At times, the Firm will utilize margin in Client accounts (please refer to Item 8 below for detailed information regarding the risks surrounding margin). When utilizing margin strategies as part of a Client's portfolio account, the Firm uses the "net value" of the Client's margin account assets for determining fees.

Unless instructed otherwise, each Client account managed by the Firm will be billed individually for its respective share of fees owed. However, the Firm will at times bill Client accounts disproportionately for fees should such actions be necessary due to insufficient funds in any respective Client account, or if doing so is deemed by the Firm to be in the best interest of Client.

### ***B. Pension Consulting Fees***

The Firm's Pension Consulting fees will not exceed 1.0% of the assets under management of the plan and are calculated and assessed quarterly, in arrears. These fees are typically calculated by the plan's record-keeper or other third-party service provider, who then issues payment to us directly from the Client's account as soon as practicable following the last business day of the previous calendar quarter. If requested by the Client, the Firm may, in its sole discretion, invoice Client directly for fees as opposed to debiting Client's Account. In such cases, invoices are due and payable upon receipt.



Should a Client begin or terminate receiving Pension Consulting Services during a quarter, the Firm's fee will be prorated based on the number of days the account was open during the quarter.

Fees are negotiable and arrangements with any particular Client can differ from those described above. Negotiated fees will be captured in and agreed upon by the Client as part of the Client's Agreement. Although the Firm believes its Pension Consulting fees are competitive, Clients should be aware that lower fees for comparable services may be available from other sources.

### ***C. Other Fees and Expenses***

The Wealth Management Fees do not include any fees due to brokers or custodians, transaction fees, wire transfer fees, IRA and qualified retirement plan fees, third-party manager's fees, and other fees that may be incurred in the normal course of business.

Specifically, in addition to our compensation outlined above, Clients will typically be assessed a transaction charge ("Transaction Charge") by the third-party broker/dealer and/or Qualified Custodian for each separate transaction to pay for the costs associated with trade execution. All Transaction Charges are identified under the commission column on the confirmation statement, which is sent following the trade. This charge represents a reimbursement for transaction costs to the broker/dealer and/or Qualified Custodian and is not a commission. We do not receive any portion of the Transaction Charge.

Additionally, Clients should understand that the fees described above do not include certain charges imposed directly by a mutual fund or ETF in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Clients should further understand that such charges, fees and commissions incurred in connection with transactions for a Client's account will be paid out of the assets in the account and are exclusive of and in addition to the fees charged by the Firm.

Our Wealth Management Services may cost Clients more or less than purchasing the investments or services separately. There are several factors that affect the cost of our services when compared to the cost of the same services purchased separately including:

- The effectiveness of our management decisions.
- The scope and nature of the services requested by Clients.
- The complexity and time involved in delivering these services to Clients.
- The number of accounts and amount of assets we manage for the Client.
- The Client's historical and or expected transaction volume.

- The amount of time and complexity involved in communicating and coordinating with non-affiliated financial service providers on Client's behalf.

#### ***D. Additional Information Regarding Firm Fees***

The Agreement executed by Clients specifies that payment of our Wealth Management Fees will be made by the qualified custodian directly from Client's custodial account, unless otherwise specified in writing by the Client. Further, the qualified custodian agrees to deliver an account statement to the Client, at least quarterly, showing all disbursements, including the Firm's advisory fees, deducted from the account. The Client is encouraged to review all account statements for accuracy and compare them to the invoices and reports received by Client. It is the Client's responsibility (and not the custodian's) to ensure the fee and its calculation in relation to the Client's account is correct. Please note that the fees charged by investment company funds and the Client's custodian are exclusive of, and in addition to, our Wealth Management Fee.

A Client Agreement can be cancelled at any time, by either party, for any reason. Clients will have five (5) business days to terminate the Agreement without penalty. After five (5) days, the Agreement may be terminated by either party upon receipt of written notice to the other party. **Kelley Investments' compensation schedule will continue for thirty (30) days after receipt of the termination notice. There are no refunds of fees after 5 days, and we do not pro-rate fees for the first or last month that a Client's account(s) is under our management.**

#### ***E. Outside Compensation***

Certain representatives of the Firm also serve as registered representatives of unaffiliated, third-party broker-dealer, and are licensed insurance agents through non-affiliated, life, health and disability insurance company[ies]. There are times when representatives of the Firm recommend the purchase of certain securities and/or insurance products to Clients. Upon purchase, the Firm representative, in his or her capacity as registered representative and/or insurance agent, will receive normal and customary commission. Certain representatives of the Firm are also employees of Scott & Cronin CPA's, an unaffiliated Certified Public Accountancy Firm. For a detailed description of these arrangements, please see Item 10 below.

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

We do not charge you performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a Client). Consequently, the Firm does not engage in side-by-side management of accounts that are charged a performance-based fee with accounts that are charged another type of fee (such as assets under management). As described above, the Firm provides advisory services for a percentage of assets under management, in accordance with applicable law.

## **Item 7 – Types of Clients**

### ***A. Description***

We provide active and on-going Wealth Management solutions for a wide range of Clients including:

- Individuals
- High Net Worth Individuals
- Families
- Corporations
- Trusts
- Pension Plans
- Retirement Plans
- Foundations
- 401-k Plans

### ***B. Conditions for Managing Accounts***

The Firm generally does not require a minimum initial investment to open an account. However, the Firm reserves the right to accept or decline a potential Client for any reason in its sole discretion. Prior to engaging the Firm to provide any of the investment advisory services described in this Brochure, the Client will be required to enter into one or more written Agreements with the Firm setting forth the terms and conditions under which the Firm shall render its services.

There are times when certain restrictions are placed by a Client, which prevents us from accepting or continuing to manage the account. We reserve the right to not accept and/or terminate management of a Client's account if we determine that the Client's imposed restrictions would limit or prevent us from meeting and/or maintaining our overall investment strategy for the Client.

If a Client's account is a pension or other employee benefit plan governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Firm is typically deemed a fiduciary to the plan. In providing investment management services, the sole standard of care imposed upon the Firm is to act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Firm will provide certain required disclosures to the "responsible plan fiduciary" (as such term is defined in ERISA) in accordance with Section 408(b)(2), regarding the services the Firm provides and the direct and indirect compensation the Firm receives by such Clients. Generally, these disclosures are contained in this Form ADV Part 2A, the Client agreement and/or in separate ERISA disclosure documents, and are designed to enable the ERISA plan's fiduciary to: (1)

determine the reasonableness of all compensation received by the Firm; (2) identify any potential conflicts of interests; and (3) satisfy reporting and disclosure requirements to plan participants.

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

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

The Firm assists Clients to determine the appropriate Kelley Portfolio Strategy[ies], which are selected based on their overall investment objectives and needs. No assumption can be made that any particular strategy will provide better returns than other investment strategies. Before participating in any program or investing in any asset class, Clients should discuss their tolerance for risk with the Firm and carefully consider the risks associated with the respective Kelley Portfolio Strategy[ies].

#### **1. Principal Objectives for Wealth Management Services**

For Client accounts that we will manage on a discretionary basis, our core investment objective is to seek long-term “Risk-Adjusted Total Return”, a combination of both capital appreciation and income.

Under normal circumstances, we seek to achieve these objectives by investing in focused or concentrated portfolios of investments in the three primary asset classes: equities, fixed-income and cash-equivalents.

The amount of money we invest in each asset class will vary from time to time based upon:

- Our assessment of relative fundamental values of securities and other investments in the asset class
- The expected future earnings growth outlook for the asset class
- The attractiveness of investment opportunities within each asset class
- General market and economic conditions
- Estimated future volatility and risk/reward of each asset class

We may invest in any, all or none of the targeted asset classes at any given time, and there is no limitation on the amount or percentage of Client assets that may be allocated to any one of these asset classes. We may, for example, invest up to 100% of Client assets in any one of these asset classes at any point in time if deemed to be in the Client’s best interest.

Our approach allows us to invest globally in portfolios that may be broadly diversified or highly concentrated, with securities of all market capitalizations, all sectors and in all industries. There is no guarantee we will achieve our objectives.

## **2. Principal Investment Strategies for Wealth Management Services**

We seek to create a balance between risk and reward over a given time period by allocating Client assets among a wide range of proprietary Kelley Portfolio Strategies, each of which utilize a broad range of asset allocations and types of securities in an attempt to generate returns while managing risk, volatility, and tax efficiency.

We will work with the Client to understand the Client's current financial situation, existing resources, investment goals, time horizons, risk tolerance, and the tax status of Client accounts. Based on what we learn, we will allocate the Client's capital to one or more Kelley Portfolio Strategies that match the Client's specific investor profile. Should the client inform us that their needs, stated goals and objectives have changed, we will reallocate their portfolio appropriately. We will communicate with Clients on a regular basis, and complete a thorough review of Client portfolios, goals and objectives at least annually.

While we maintain the flexibility to invest globally, we often focus our equity investments in U.S. companies that we believe are high quality and that offer the potential for future price appreciation. In selecting equity investments for our Kelley Portfolio Strategies, we attempt to identify investments/companies that enjoy fundamentally strong market positions in growing industries, have shown exceptional earnings power and that have superior rates of return over varying economic cycles. Our investment decisions are based upon qualitative, fundamental analysis that emphasizes company-specific research.

It is our belief that an investment's earnings growth will drive its price over time. Our general strategy is to attempt to purchase excellent investments at a discount to their fundamental long-term value and hold them as their price reflects their inherent worth.

With equities, we generally pursue a GARP or "growth at a reasonable price" style of investing, meaning that we may invest in equity securities of companies that we believe are reasonably priced, will have above-average earnings growth and which, therefore, may experience above-average increases in stock prices.

It is our intent to buy and hold securities for the long-term and our goal is to keep portfolio turnover moderate. However, we may sell an investment in response to deterioration in a company's business prospects, performance or financial strength, when the security's price is no longer justifiable, or if the security demonstrates earnings disappointments.

We use a similar qualitative, fundamental approach to choosing investments in fixed-income and cash equivalent securities within the Kelley Portfolio Strategies.

### ***B. Risk of Loss***

**Investing in securities involves risk of loss that you should be prepared to bear.** The Firm's investment recommendations are subject to various market, currency,

economic, political and business risks, and such investment decisions are not always profitable. Clients should be aware that there a loss or depreciation to the value of the Client's account can occur. There can be no assurance that the Client's investment objectives will be obtained and no inference to the contrary should be made.

**The Principal Risks of Investing with us include, but are not limited to:**

**General Risks:** Your investments with us are not a deposit of a bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Accordingly, you may lose money by investing with us. When you sell your investments, they may be worth less than what you paid for them because the value of investments will fluctuate reflecting day-to-day changes in market conditions, interest rates and a number of other factors.

**Opportunity Cost Risk:** The risk that an investor may forego profits or returns from other investments.

**Allocation Risk:** Our allocation of investments among different asset classes, such as equity or fixed-income assets classes, may have a more significant effect on your returns when one of these classes is performing more poorly than others.

**Management Risk:** By investing your money with us you are subject to the risk of poor investment selection. In other words, we may not be successful in our choice of investments, and your investments may be worth less than you paid for them regardless of general market conditions.

**Market Risk:** Stock and bond markets often trade in random price patterns, and prices can fall over sustained periods of time. The value of the investments we make for you will fluctuate as the financial markets fluctuate. This could result in your account value(s) declining over short or long term periods of time.

**Focused and Concentrated Portfolio Risks:** We will often invest your assets in a smaller number of securities than other broadly diversified investment strategies. Our approach is often referred to as "focused, concentrated, or non-diversified". Accordingly, the money we manage for you may have more volatility and is often considered to have more risk than a strategy that invests in a greater number of securities because changes in the value of a single security may have a more significant effect, either negative or positive, on your overall portfolio value. To the extent we invest your assets in fewer securities, or we invest in non-diversified funds that take a focused or concentrated approach, your assets are subject to greater risk of loss if any of those securities become permanently impaired.

**Equity Risk:** Your investments will be subjected to the risk that stock prices may fall over short or extended periods of time. Historically, the equity markets have moved in cycles, and the value of equity securities in your portfolio may fluctuate drastically from

day to day. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. These factors will contribute to the volatility and risk of your assets.

**Fixed Income Risk:** When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk

**Long/Short Mutual Fund Risk:** In addition to Long-only Mutual Funds, we may invest your assets in Long/Short Mutual Funds. Long/Short Mutual Funds invest in long positions in stocks identified as undervalued that are believed may go up in value, and sell short positions in stocks that are identified as overvalued that are believed may fall in value. Since Long/Short Mutual Fund managers are both buying securities long and selling securities short, there is the risk that a long/short mutual fund manager may make more poor investment decisions than a manager of a typical stock mutual fund with only a long portfolio may make.

**Short Sale Risk:** Short sales of securities may result in gains if a security's price declines, but may result in losses if a security's price rises. Short sales may result in unlimited losses.

**Foreign Securities Risk:** We have the ability to invest in foreign securities, and, from time to time, a significant percentage of your assets may be composed of foreign investments. Foreign investments involve greater risk in comparison to domestic investments because foreign companies/securities: may have different auditing, accounting, and financial reporting standards; may not be subject to the same degree of regulation as U.S. companies, and may have less publicly available information than U.S. companies; and are often denominated in a currency other than the U.S. dollar.

**Currency Risk:** Your investments may be subject to currency risk. Currency fluctuations and changes in the exchange rates between foreign currencies and the U.S. dollar could negatively affect the value of your investments in foreign securities.

**Interest Rate Risk:** Your investments are subject to interest rate risk. Interest rate risk is the risk that the value of a security will decline because of a change in general interest rates. Investments subject to interest rate risk will usually decrease in value when interest rates rise. For example, fixed-income securities with long maturities typically experience a more pronounced change in value when interest rates change.

**Reinvestment Risk:** The risk that interest and principal payments from a bond will be reinvested at a lower yield than that received on the original bond. During periods of

declining interest rates, bond payments may be invested at lower rates; during periods of rising rates, bond payments may be invested at higher rates.

**Credit Risk:** Your investments are subject to credit risk. An investment's credit quality depends on its ability to pay interest on and repay its debt and other obligations.

**Small- to Medium-Capitalization Risk:** We may invest your assets in small to medium sized companies. Shares of small to medium sized companies may have more volatile share prices. Furthermore, the securities of small to medium companies often have less market liquidity and their share prices can react with more volatility to changes in the general marketplace.

**Junk Bond/High-Yield Security Risk:** We may invest your assets in Junk Bonds or High-Yield, lower rated securities. Investments in fixed-income securities that are rated below Investment grade can be subject to greater risk of loss of principal and interest than investments in higher-rated fixed-income securities. The market for high yield securities may be less liquid than the market for higher-rated securities. High yield securities are also generally considered to be subject to greater market risk than higher-rated securities. The capacity of issuers of high yield securities to pay interest and repay principal is more likely to weaken than is that of issuers of higher-rated securities in times of deteriorating economic conditions or rising interest rates.

**Prepayment Risk:** Your investments may be subject to prepayment risk. Prepayment risk occurs when the issuer of a security can repay principal prior to the security's maturity. Securities subject to prepayment can offer less potential for gains during a declining interest rate environment and similar or greater potential for loss in a rising interest rate environment. In addition, the potential impact of prepayment features on the price of a security can be difficult to predict and result in greater volatility.

**Inflation Risk:** This is the risk that the value of your assets or income will be less in the future as inflation decreases the value of your money. As inflation increases, the value (purchasing power) of your assets can decline. This risk increases as we invest a greater portion of your assets in fixed-income securities with longer maturities.

**Liquidity Risk:** Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing us from selling out of these illiquid securities at an advantageous price.

**Investment Style Risk:** We generally pursue a GARP or "growth at a reasonable price" style of investing, meaning that we may invest in equity securities of companies that we believe will have above-average earnings growth and which, therefore, may experience above-average increases in stock prices. Over time, a growth at a reasonable price investing style may go in and out of favor, causing our portfolios to sometimes underperform other equity funds or investments that use differing investing styles.



**Home Country Bias Risk:** While we maintain the flexibility to invest globally, we often focus our investments in U.S. based companies, which is sometimes referred to as “home country bias”. Home country bias refers to the tendency for investors to favor companies from their own countries over those from other countries or regions. By not diversifying with international securities, we could create a weakness in our portfolios if our home country suffers serious economic decline; or, we simply could miss out on opportunities offered by foreign investments.

**Margin Risk:** When purchasing securities, the securities may be paid for in full, or it is possible to borrow part of the purchase price from the Client’s account custodian or clearing firm. If borrowing funds in connection with the Client account, the Client will be required to open a margin account, which will be carried by the clearing firm. The securities purchased in such an account are the clearing firm’s collateral for its loan to the Client. If those securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and as a result, the brokerage firm is required to take action in order to maintain the necessary level of equity in the account. The brokerage firm may issue a margin call and/or sell other assets in your account. It is important that each Client fully understand the risks involved in trading securities on margin, which are applicable to any margin account that Clients maintain. These risks include the following: (i) the Client can lose more funds than deposited in the margin account; (ii) the account custodian or clearing firm can force the sale of securities or other assets in the account; (iii) the account custodian or clearing firm can sell the Client’s securities or other assets without contacting the Client; (iv) the Client is not entitled to choose which securities or other assets in the margin account may be liquidated or sold to meet a margin call; (v) the account custodian or clearing firm may move securities held in a cash account to the margin account and pledge the transferred securities; (vi) the account custodian or clearing firm can increase its “house” maintenance margin requirements at any time and they are not required to provide the Client advance written notice; and/or (vii) the Client is not entitled to an extension of time on a margin call.

## **Item 9 – Disciplinary Information**

Registered Investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of our firm or the integrity of our management.

We do not have any material facts about legal or disciplinary events that are material to your evaluation of the integrity of our firm or its advisory agents to disclose. Your confidence and trust placed in our Firm and its advisory agents is something we value and endeavor to protect.

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

Our principals are registered securities representatives of Ceros Financial Services Inc., a registered broker-dealer, member of the Financial Industry Regulatory Authority ("FINRA"), and SIPC. In addition, Craig P. Kelley is also a licensed insurance agent (CA Insurance License # 0A11071). We have no single agreement with any agency or company, but will seek out the products of any company, agency or brokerage that may have products fitting your needs. In these capacities, our principals will at times recommend securities and/or insurance products to Clients. Upon purchase, the representative, in his or her capacity as registered representative and/or insurance agent, will receive normal and customary commission.

Due to the fact such representatives are licensed and can recommend the purchase of securities, insurance or other investment products where they receive commissions or other compensation for doing so, a conflict of interest exists because the representatives have an incentive to make recommendations based on the compensation received rather than on a Client's needs. Kelley Investments has adopted certain procedures designed to mitigate the effects of these conflicts. As part of our fiduciary duty to Clients, the Firm and our representative's endeavor at all times to act in the Client's best interest, and recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the Client. Additionally, the conflicts presented by these practices are disclosed to Clients through the Firm's Brochure, Brochure Supplements, the Client Agreement and/or verbally prior to or at the time of entering into an agreement with the Firm. Clients always have the right to decide whether or not to implement any recommended transactions by the Firm. Should the Client choose to do so, the Client always has the right to choose the professional in which to do so. Our Clients should understand that lower fees and/or commissions for comparable services may be available from other sources.

Additionally, Larry Scott, an investment adviser representative of the Firm, is an owner/employee of Scott & Cronin CPA's, an unaffiliated Certified Public Accountancy firm. At times, representatives of the Firm will recommend Clients utilize the services of Scott & Cronin CPA's for their accountancy needs. There are no fees paid for such referrals. However, should Clients choose to engage Scott & Cronin CPA's, Mr. Scott will receive normal compensation for his respective role and ownership interest in Scott & Cronin CPA's. This additional receipt of compensation creates a conflict of interest in that Mr. Scott has a financial incentive to recommend Scott & Cronin CPA's as opposed to other accounting firms. In order to mitigate this conflict, it is disclosed to Clients through this Brochure and relevant Brochure Supplements. Further, Clients are made aware – typically through the delivery of this Brochure, that they always have the right to

decide whether or not to implement any recommended transactions by the Firm, and are under no obligation to utilize Scott & Cronin CPA's for their accounting needs, and are free to select any accountancy firm of their choosing.

Neither Kelley Investments nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity pool trading advisor or an associated person of the foregoing entities

## **Item 11 – Code of Ethics**

We have adopted a Code of Ethics for everyone supervised by our Firm. Our Code of Ethics includes provisions relating to the confidentiality of your information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things.

Everyone supervised by our Firm must acknowledge the terms of the Code of Ethics.

We anticipate that from time to time we will recommend to Clients the purchase or sale of securities in which we, or our representatives, have a position of interest. Our Code of Ethics states that we may trade for our own accounts in securities which we are recommended to and/or purchased for Clients. The Code of Ethics is designed to assure that our personal securities transactions will not interfere with making decisions in the Client's best interest.

The personal investing of people supervised by our Firm is continually monitored to reasonably prevent conflicts of interest between our Firm and our Clients. We and our representatives will act in a fiduciary manner, understand the prohibitions against the use of any insider information and will always act in our Client's best interest.

You may request a copy of our Code of Ethics by contacting Craig P. Kelley, President at 1-858-350-1010, or at [craig@kelleyinvestments.com](mailto:craig@kelleyinvestments.com).

## **Item 12 – Brokerage Practices**

When the Firm places orders for the execution of portfolio transactions for client accounts, transactions are allocated to brokers and dealers for execution in various markets at prices and commission rates that, based upon good faith judgment, will be in the best interest of the Client. The following discussion summarizes the material

aspects of the Firm's practices for the selection of broker-dealers to execute Client transactions.

### **Brokerage Firm Selection (Custodian):**

All separately managed account Clients are required to establish custodial accounts with a qualified custodian of record. The Firm will only implement its investment management recommendations after the Client has arranged for and furnished the Firm with all information and authorization regarding accounts with appropriate financial institutions to act as broker-dealer and custodian.

Factors which the Firm considers in recommending broker-dealers include their respective financial strength, reputation, execution, pricing, research, and service. The commissions and/or transaction fees charged by particular brokers selected by the Firm can be higher or lower than those charged by other broker-dealers. The Firm periodically evaluates the commissions charged and the service provided by the broker-dealer and compares those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative broker-dealers.

The Firm currently utilizes and recommends Ceros Financial Services as its primary broker/dealer and National Financial Services(NFS)/Fidelity Investments as custodian for Client accounts ("Ceros/NFS"). Although the Firm makes this recommendation, it is the Client's decision to custody assets with a particular broker-dealer and custodian. Kelley Investments is independently owned and operated and is not affiliated with any broker dealer, investment company, or qualified custodian. However, as discussed in Item 10 above, our principals are registered securities representatives of Ceros Financial Services Inc., a registered broker-dealer, member of the Financial Industry Regulatory Authority ("FINRA"), and SIPC.

For our Clients' accounts that Ceros/NFS maintains, Ceros/NFS generally does not charge clients separately for custody services but is compensated by charging client's Transactions Charges on trades that it executes or that settle into their Ceros/NFS account. Ceros/NFS is also compensated by earning interest on the uninvested cash in client accounts.

### **Benefits Received by the Firm:**

The Firm does not have a formal soft dollar arrangement in place. In this context, the term "formal soft dollar arrangement" is defined as any agreement with a broker-dealer, either oral or written, whereby soft dollar credits or brokerage or research are provided to the Firm in exchange for directing Client brokerage transactions to the broker-dealer. However, brokers will provide the Firm with access to institutional trading and operations services including software and other technology not typically available to a broker's retail customers.

The Firm's recommendation that Clients establish accounts at Ceros/NFS to custody their investments is based upon both the brokerage services offered to the Client and the availability of benefits received by the Firm. These benefits include:

- Access to client account data, electronic duplicate statement and confirmations, pricing and market data.
- A dedicated administrative group.
- A dedicated trading desk.
- Negotiated cost for transaction execution.
- The ability to have advisory fees deducted directly from Client accounts.
- Duplicate and batched Client statements, confirmations and year-end reports.
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts).

These benefits create a conflict of interest as Clients could pay higher transaction fees than they might at other brokers. While there are no additional costs to Clients as a result of these services provided to the Firm, there is benefit to Kelley Investments. This creates an incentive for the Firm to recommend one custodial broker over another.

To help mitigate the conflicts of interest created by the Firm's receipt of such benefits, and to help ensure that broker-dealer custodians recommended by the Firm are conducting overall best qualitative execution, the Firm will periodically evaluate its trading process and brokers utilized. The Firm will review the brokerage firm's services, their value added to the Firm's investment process along with the broker's full range and quality of the broker's and custodians services including execution capability, commission rates, financial condition, responsiveness, and the overall value and quality of custodial services provided to the Client. At that time brokerage firms not currently utilized will be considered for inclusion if the President of the Firm deems that such brokerage firms will significantly improve the Firm's overall management of client accounts. Currently, given our investment approach and trading practices, the Firm believes that Ceros/NFS's fees are competitive

### **Directed Brokerage:**

Clients should understand that not all investment advisors require the use of a particular broker/dealer or custodian. Some investment advisors allow their clients to select whichever broker/dealer the client decides. By requiring clients to use a particular broker/dealer, we may not achieve the most favorable execution of client transactions and the practice of requiring the use of specific broker/dealers can cost clients more money than if the client used a different broker/dealer or custodian. However, for compliance and operational efficiencies, we have decided not to permit directed brokerage, and to require our clients to use Ceros Financial Services as a broker/dealer, and National Financial Services(NFS)/Fidelity Investments as a qualified custodian.

All of your transactions in mutual funds, variable products and general securities are placed through our broker/dealer, Ceros Financial Services. Ceros introduces its securities accounts to National Financial Services (NFS)/Fidelity Investments who acts as your Qualified Custodian.

### **Trade Aggregation Policy:**

The Firm evaluates trades on a client-by-client basis. On any given day, the number of securities traded that are common across Clients will vary greatly. The Firm utilizes software programs to enhance its trading efficiency including the aggregating or “batching” of trades in securities across Clients.

Upon execution, the pricing of such batched trades is averaged and proportionately allocated among the corresponding Client accounts. Given normal trade size and depth of the market for such securities, the Firm’s execution of aggregated trades is not expected to have a material impact on pricing. To the extent other securities are purchased or sold that lend themselves to aggregation or block trading (for example, stocks or exchange traded funds); we may aggregate Client transactions or allocate orders whenever practical.

### **Trade Errors Practices:**

Even with our best efforts and controls, trade errors can happen. All trade errors will be brought to the attention of the Head Trader and the CCO immediately upon discovery. We will work to formulate the best resolution for the Client. In the event of a trade error, errors will be corrected before the current day market close (if possible) **or as soon as practical after discovery** and with the intent to make the Client whole. Ideally, when possible, trade errors will be moved from the Client’s account to either our trade error account with the broker/dealer that executed the trade or that broker/dealer’s trade error account, depending upon which party is responsible for the error. In cases in which we are responsible for the error, all losses will be paid by us and all gains will be retained by the custodian. In cases in which the broker/dealer is responsible for the error, we will follow the procedures of the broker/dealer with respect to any gains or losses in the trade error account. Please be advised that any trade errors that result from inaccurate instructions provided by the Client remain the financial responsibility of the Client.

### **Item 13 – Review of Accounts**

Your accounts are reviewed by Craig P. Kelley of Kelley Investments monthly, or in some instances more often. Triggers for reviews are our receipt of your monthly account statements, performance reports from third party managers, or significant changes in investment or market valuations.

You may request a one-on-one, in person or teleconference review of your account(s) as often as you feel is necessary.

You are responsible for notifying us immediately of any changes to your financial goals, risk tolerances, personal situation, or any other factors that could alter your investments objectives.

Statements, confirmations and/or performance reports are furnished monthly, quarterly or semi-annually from various financial services institutions/firms with which you transact business. These firms may include, and are not limited to, brokerages, investment companies, insurance companies, trust companies, other registered investment advisors, banks and credit unions. You will receive account statements from these entities and not our Firm.

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

##### ***A. Incoming Referrals***

The Firm does not directly or indirectly compensate any person who is not a supervised person for Client referrals.

##### ***B. Referring Clients to Third Parties***

We do not receive compensation for referring Clients to any third-party.

##### ***C. Economic Benefits Received***

As discussed under Item 12, the Firm receive certain benefits whereby brokerage transactions are directed to certain broker-dealers in return for services which assist us in operating our business. Please see Item 12 above for additional information.

Additionally, as mentioned above, certain representatives have outside business activities that provide additional compensation. Please refer to Items 5 and 10 above, and/or the respective representative's Form ADV Part 2B Supplemental Brochure, for detailed information regarding these business activities, the compensation received, the related conflicts and how the Firm mitigates such conflicts.

#### **Item 15 – Custody**

We do not act as a custodian for any Client assets. All of your assets invested with us are held in custody at a Qualified Custodian. The Qualified Custodian produces and mails detailed account statements and trade confirmations directly to you on a monthly basis. The monthly account statements produced by the Qualified Custodian detail all activities and holdings in your account(s), including the debiting of our fees. If there is

no activity in the account, the Qualified Custodian will produce your account statement(s) on a quarterly basis. In addition to the account statements and trade confirmations, you will have on-line access to review their account details via a link provided by the Qualified Custodian. Clients can access this link by visiting our web site at: [www.kelleyinvestments.com](http://www.kelleyinvestments.com). Clients should understand that it is their responsibility to ensure that the fee calculation is correct, and not the custodian.

The Firm is deemed to have custody of Client funds or securities by reason of the fact that we have authority to debit fees directly from the Client's account (such authority is granted as part of the Client Agreement). Under applicable regulations, advisers with custody are generally required to undergo an independent verification of the assets for which the adviser has custody through an annual surprise examination by an independent certified public accountant. However, advisers who are deemed to have custody solely as a consequence of the authority to debit fees directly from Client accounts are not required to obtain an independent verification of those Client funds and securities maintained by a qualified custodian so long as certain steps are followed.

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

***Discretionary Wealth Management:*** When providing Wealth Management Services on a discretionary basis, the Firm will have a limited power of attorney with full investment discretion over (1) which securities are to be bought or sold in Client accounts; (2) the amount of securities to be bought or sold in Client accounts; and (3) when transactions are made. This means that we do not have to obtain prior consent from the Client when investing Client assets. In addition, our authority to trade securities could be limited in certain circumstances by applicable legal and regulatory requirements. In some instances, our discretionary authority can be limited by conditions imposed by Clients on our discretionary authority, including restrictions on investing in certain securities or types of securities. All such limitations, restrictions, and investment guidelines must be provided to the Firm in writing.

***Non-discretionary Wealth Management:*** At times, Clients may hire us to provide non-discretionary Wealth Management Services on their behalf. In such instances, we will receive Client authorization prior to each transaction for (1) which securities are to be bought or sold in Client accounts; and (2) the amount of securities to be bought or sold in Client accounts. After receiving authorization from the Client, the Firm generally has discretion with regard to when the transaction is executed, however, the Firm has no other discretionary authority over Client accounts.



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

The Firm's general policy and practice is to not vote proxies on behalf of its advisory Clients and therefore, shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in an advisory Client's account, unless the account is an ERISA account and such authority has not been delegated to another named fiduciary in the plan's written documents. Consequently, custodians are instructed to forward all shareholder related material to the owner of the account, and the advisory Client retains the responsibility for receiving and voting all proxies for securities held within the Client's account. The Firm may provide advice to advisory Clients regarding the Clients' voting of proxies, but only upon specific written request by Client, and the Firm shall not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a Client.

The Firm typically does not advise or act for advisory Clients with respect to any legal matters, including bankruptcies and class actions, for the securities held in Clients' accounts.

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

Investment Advisers are required to provide you with certain financial information or disclosures about the firm's financial condition. Kelley Investments has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients and has not been the subject of a bankruptcy proceeding. Further, the Firm does not require or solicit payment of fees in excess of \$1,200 per Client more than six months in advance of services rendered and therefore is not required to include a financial statement.

### **Item 19 – Brochure Supplements**

**Item 1- Cover Page**

**Sean P. O'Hara**  
**Kelley Investments, LLC**  
**dba Kelley Investments**

2175 El Amigo Road

Del Mar, CA 92014

1-858-350-1010

[www.KelleyInvestments.com](http://www.KelleyInvestments.com)

February 13, 2018

**This Brochure Supplement provides information about Sean P. O'Hara that supplements the Kelley Investments Brochure. You should have received a copy of that Brochure. Please contact Craig Kelley at 858-350-1010 if you did not receive Kelley Investment's Brochure or if you have any questions about the contents of this supplement.**

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

**Item 2- Educational Background and Business Experience**

Sean P. O'Hara

Born: 1974

EDUCATION: Graduated from the University of Pittsburgh CGS, Economics

INDUSTRY EXPERIENCE: More than twenty years. Beginning in 1997 in the Private Client Division at Merrill Lynch, Pittsburgh, Pennsylvania. Sean was associated with LPL Financial Services in San Diego prior to joining Kelley Investments in 2000.

**Item 3- Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item.

#### **Item 4- Other Business Activities**

Sean P. O'Hara is the President of Keystone Investments Inc. a consulting firm providing guidance to the Financial Services industry.

Sean P. O'Hara is also a California Licensed Real Estate Agent (CA License #02003223)

#### **Item 5- Additional Compensation**

None applicable

#### **Item 6 - Supervision**

Supervision is done by Craig P. Kelley, Principal, 858-350-1010. Accounts that are managed by Sean O'Hara are monitored monthly to verify the accounts are being managed according to the Kelley Investments Investment Policy Statement.

#### **Item 7- Requirements for State-Registered Advisers**

Not applicable.

**Item 1- Cover Page**

**F. Larry Scott**  
**Kelley Investments, LLC**  
**dba Kelley Investments**

2175 El Amigo Road

Del Mar, CA 92014

1-858-350-1010

[www.KelleyInvestments.com](http://www.KelleyInvestments.com)

February 13, 2018

**This Brochure Supplement provides information about F. Larry Scott that supplements the Kelley Investments Brochure. You should have received a copy of that Brochure. Please contact Craig Kelley at 858-350-1010 if you did not receive Kelley Investment's Brochure or if you have any questions about the contents of this supplement.**

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

**Item 2- Educational Background and Business Experience**

F. Larry Scott

Born: Year June 10, 1947

EDUCATION: Bachelor's Degree from San Diego State University. Graduate work in Accounting at San Diego State University

INDUSTRY EXPERIENCE: I've been in the securities industry for over ten years and a CPA since 1975.

**Item 3- Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item.

**Item 4- Other Business Activities**

F. Larry Scott is managing partner of Scott & Cronin CPA's

F. Larry Scott is the Chairman of the R.C. Baker Foundation, a private foundation.

**Item 5- Additional Compensation**

None applicable

**Item 6 - Supervision**

Supervision is done by Craig Kelley Principal, 858-350-1010. Accounts are monitored monthly to verify the accounts are being managed according to the Kelley Investments Investment Policy Statement.

**Item 7- Requirements for State-Registered Advisers**

Not applicable.