

**Item 1: Cover Page  
Part 2A of Form ADV: Firm Brochure  
February 2021**



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This brochure provides information about the qualifications and business practices of Quantum Econometrics, LLC. If you have any questions about the contents of this brochure, please contact us by telephone at (562) 945-7787 or email [burneffk@quantumecon.com](mailto:burneffk@quantumecon.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 Quantum Econometrics, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching CRD #161197.

Please note that the use of the term "registered investment adviser" and description of Quantum Econometrics, LLC and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm's associates who advise you for more information on the qualifications of our firm and our employees.

## **Item 2: Material Changes to Our Part 2A of Form ADV: Firm Brochure**

Quantum Econometrics, LLC is required to advise you of any material changes to our Firm Brochure ("Brochure") from our last annual update, identify those changes on the cover page of our Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Brochure. We must state clearly that we are discussing only material changes since the last annual update of our Brochure, and we must provide the date of the last annual update of our Brochure.

Since the last annual amendment filed on 03/18/2020, we have the following material changes to disclose:

- We have updated our Form ADV 2A to remove references to standalone Financial Planning & Consulting. Our firm no longer offers Financial Planning & Consulting as a standalone service.

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## Item 4: Advisory Business

A. Description of our advisory firm, including how long we have been in business and our principal owner(s)<sup>1</sup>.

We are dedicated to providing individuals and other types of clients with a wide array of investment advisory services. Our firm is a limited liability company formed in the State of California. Our firm has been in business as an investment adviser since 2005 but has undergone corporate restructuring as of 2012. Our firm is owned as follows:

- Herbert N. Messick III - 80% Owner
- Douglas M. Rowan - 10% Owner
- Karen Burneff - 10% Owner

B. Description of the Types of Advisory Services We Offer

(i) Wrap Portfolio Management

We offer Portfolio Management to clients on a Wrap basis. For more information about our Wrap services, please refer to our Form ADV 2A Appendix 1 ("Wrap Fee Program Brochure").

C. Explanation of whether (and, if so, how) we tailor our advisory services to the individual needs of clients, whether clients may impose restrictions on investing in certain securities or types of securities.

We offer individualized investment advice to clients utilizing our Wrap Portfolio Management. Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. Restrictions on investments in certain securities or types of securities may not be possible due to the level of difficulty this would entail in managing the account. Restrictions would be limited to our Wrap Portfolio Management services. We do not manage assets through our other services.

D. Participation in Wrap Fee Programs.

Our firm offers a wrap fee program as further described in Part 2A, Appendix 1 (the "Wrap Fee Program Brochure"). Our firm does not manage wrap fee accounts in a different fashion than non-wrap fee accounts. All accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc.

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<sup>1</sup> Please note that: (1) For purposes of this item, our principal owners include the persons we list as owning 25% or more of our firm on Schedule A of Part 1A of Form ADV (Ownership Codes C, D or E). (2) If we are a publicly held company without a 25% shareholder, we simply need to disclose that we are publicly held. (3) If an individual or company owns 25% or more of our firm through subsidiaries, we must identify the individual or parent company and intermediate subsidiaries. If we are a state-registered adviser, on Form ADV Part 2A Page 2, we must identify all intermediate subsidiaries. If we are an SEC-registered adviser, we must identify intermediate subsidiaries that are publicly held, but not other intermediate subsidiaries.

- E. Disclosure of the amount of client assets we manage on a discretionary basis and the amount of client assets we manage on a non-discretionary basis as of December 31, 2019.

As of December 31<sup>st</sup>, 2020 our firm has \$162,993,208 in assets under management. Of which, \$129,620,755 is managed on a discretionary basis and \$33,372,453 on a non-discretionary basis.

## Item 5: Fees & Compensation

- A. Description of how we are compensated for our advisory services provided to you

(i) Wrap Portfolio Management:

For information about the fees associated with our Wrap Portfolio Management service, please refer to Item 4 of our Wrap Fee Program Brochure.

- B. Description of whether we deduct fees from clients' assets or bill clients for fees incurred.

(ii) Wrap Portfolio Management:

We deduct advisory fees directly from managed accounts for our Wrap Portfolio Management service. For more information about fee deduction, please refer to Item 4 of our Wrap Fee Program Brochure.

- C. Description of any other types of fees or expenses clients may pay in connection with our advisory services, such as custodian fees or mutual fund expenses.

Clients may pay the following separately incurred expenses, which we do not receive any part of: charges imposed directly by a mutual fund, index fund, or exchange traded fund which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses).

- D. We must disclose if client's advisory fees are due quarterly in advance. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.

We charge our advisory fees monthly in arrears. If you wish to terminate our services, you need to contact us in writing and state that you wish to cancel the advisory agreement. Upon receipt of your letter of termination, we will proceed to close out your account and charge you a pro-rata advisory fee(s) for services rendered up to the point of termination.

- E. Commissionable Securities Sales.

We sell securities for a commission. In order to sell securities for a commission, our supervised persons are registered representatives of Cetera Advisor Networks, LLC ("CAN"), a Cetera Company. CAN is a FINRA registered broker/dealer and SEC registered Investment Adviser. Our supervised persons may accept compensation for the sale of securities or other investment

products, including distribution or service (“trail”) fees from the sale of mutual funds. You should be aware that the practice of accepting commissions for the sale of securities:

- 1) Presents a conflict of interest and gives our firm and/or our supervised persons an incentive to recommend investment products based on the compensation received, rather than on your needs. We generally address commissionable sales conflicts that arise when explaining to clients that commissionable securities sales creates an incentive to recommend products based on the compensation we and/or our supervised persons may earn and may not necessarily be in the best interests of the client or when recommending commissionable mutual funds, explaining that “no-load” funds are available through our firm if the client wishes to become an investment advisory client.
- 2) In no way prohibits you from purchasing investment products recommended by us through other brokers or agents which are not affiliated with us.

### **Item 6: Performance-based Fees & Side-by-Side Management**

We do not charge performance fees to our clients.

### **Item 7: Types of Clients & Account Requirements**

We have the following types of clients:

- Individuals and High Net Worth Individuals;

Our requirements for opening and maintaining accounts or otherwise engaging us:

- We require a minimum account balance of \$250,000 for our Wrap Portfolio Management service. Generally, this minimum account balance requirement is not negotiable and would be required throughout the course of the client’s relationship with our firm. Our firm may waive the minimum account balance in its sole discretion.

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

#### **Methods of Analysis:**

Quantum primarily uses the following methods of analysis for our recommendations: Fundamental, Macro, Technical and Sentiment. Quantum uses advanced computer models and experienced interpretation to select the best products according to factors such as ratings, yield, total return, industry ratios, earnings, and financial statements. This data is reviewed periodically for optimal results. Quantum also meets regularly with representatives from many of the mutual fund companies that we may use in various portfolios.

**Investment Strategies:**

- Long Term Purchases (Securities Held At Least a Year);
- Short Term Purchases (Securities Sold Within a Year);
- Trading (Securities Sold Within 30 Days); and
- Margin Transactions;

**Please Note:** Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and your account(s) could enjoy a gain, it is also possible that the stock market may decrease and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and ask us any questions you may have.

We generally invest client's cash balances in money market funds, FDIC Insured Certificates of Deposit, high-grade commercial paper and/or government backed debt instruments. Ultimately, we try to achieve the highest return on our client's cash balances through relatively low-risk conservative investments. In most cases, at least a partial cash balance will be maintained in a money market account so that our firm may debit advisory fees for our services related to Wrap Portfolio Management, as applicable.

**Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to the evaluation of our advisory business or the integrity of our management.

**Item 10: Other Financial Industry Activities & Affiliations**

Representatives of our firm are investment adviser representatives and registered representatives of Cetera Advisor Networks, LLC ("CAN") member FINRA/SIPC, and licensed insurance agents. As a result of these transactions, they receive normal and customary commissions. A conflict of interest exists as these commissionable securities sales create an incentive to recommend products based on the compensation earned. To mitigate this potential conflict, our firm will act in the client's best interest.

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

As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. Our fiduciary duty is the underlying principle for our firm's Code of Ethics, which includes procedures for personal securities transaction and insider trading. Our firm requires all representatives to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment with our firm, and at least annually thereafter, all representatives of our firm

will acknowledge receipt, understanding and compliance with our firm's Code of Ethics. Our firm and representatives must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. If a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

Our firm recognizes that the personal investment transactions of our representatives demands the application of a Code of Ethics with high standards and requires that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, our firm also believes that if investment goals are similar for clients and for our representatives, it is logical, and even desirable, that there be common ownership of some securities.

In order to prevent conflicts of interest, our firm has established procedures for transactions effected by our representatives for their personal accounts<sup>2</sup>. In order to monitor compliance with our personal trading policy, our firm has pre-clearance requirements and a quarterly securities transaction reporting system for all of our representatives.

Neither our firm nor a related person recommends, buys or sells for client accounts, securities in which our firm or a related person has a material financial interest without prior disclosure to the client.

Related persons of our firm may buy or sell securities and other investments that are also recommended to clients. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

Related persons of our firm may buy or sell securities for themselves at or about the same time they buy or sell the same securities for client accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request. Further, our related persons will refrain from buying or selling the same securities within 48 hours of buying or selling for our clients. If related persons' accounts are included in a block trade, our related persons will always trade personal accounts last.

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<sup>2</sup> For purposes of the policy, our associate's personal account generally includes any account (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which our associate is a trustee or executor, or (c) which our associate controls, including our client accounts which our associate controls and/or a member of his/her household has a direct or indirect beneficial interest in.



## Item 12: Brokerage Practices

A. Description of the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

1. Research & Other Soft Dollar Benefits.

Our firm may recommend/require that clients establish brokerage accounts with Pershing Advisor Solutions, LLC ("PAS") of One Pershing Plaza, 95 Christopher Columbus Drive, Jersey City, New Jersey 07399, a FINRA registered broker-dealer, member SIPC, or Cetera Advisor Network ("CAN"), member FINRA/SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although our firm may recommend/require that clients establish accounts at PAS and/or CAN, it is the client's decision to custody assets with PAS and/or CAN. Our firm is independently owned and operated and not affiliated with PAS.

For our firm's client accounts maintained in its custody, PAS and/or CAN generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through PAS and/or CAN or that settle into PAS and/or CAN accounts. Clients should be made aware that Other major custodians have recently eliminated transaction fees for all ETFs and U.S. listed equities, so clients may pay more for investing in the same securities at PAS and/or CAN.

As part of the arrangement described, PAS and/or CAN also makes certain research and brokerage services available at no additional cost to our firm. These services include certain research and brokerage services, including research services obtained by PAS and/or CAN directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided by PAS and/or CAN to our firm may include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance by PAS and/or CAN to our firm in the performance of our investment decision-making responsibilities. The aforementioned research and brokerage services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

As a result of receiving the services discussed in 12A(1)a of this Firm Brochure for no additional cost, we may have an incentive to continue to use or expand the use of PAS and/or CAN services. Our firm examined this potential conflict of interest when we chose to enter into the relationship with PAS and/or CAN and we have determined that the relationship is in the best interest of our firm's clients and satisfies our client obligations, including our duty to seek best execution.

PAS and/or CAN charge brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds,

commissions are charged for individual equity and debt securities transactions). PAS and/or CAN enables us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. PAS and/or CAN commission rates are generally discounted from customary retail commission rates. However, the commission and transaction fees charged by PAS and/or CAN may be higher or lower than those charged by other custodians and broker-dealers.

Clients may pay a commission to PAS and/or CAN that is higher than another qualified broker dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. 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 we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions.

We do not receive soft dollar benefits although the non-soft dollar investment research products and services that may be obtained by our firm will generally be used to service all of our clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account.

2. Brokerage for Client Referrals.

Our firm does not receive brokerage for client referrals.

3. Directed Brokerage.

Neither we nor any of our firm's related persons have discretionary authority in making the determination of the brokers with whom orders for the purchase or sale of securities are placed for execution, and the commission rates at which such securities transactions are effected.

**Special Considerations for ERISA Clients**

A retirement or ERISA plan client may direct all or part of portfolio transactions for its account through a specific broker or dealer in order to obtain goods or services on behalf of the plan. Such direction is permitted provided that the goods and services provided are reasonable expenses of the plan incurred in the ordinary course of its business for which it otherwise would be obligated and empowered to pay. ERISA prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the plan. Consequently, we will request that plan sponsors who direct plan brokerage provide us with a letter documenting that this arrangement will be for the exclusive benefit of the plan.

- B. Discussion of whether, and under what conditions, we aggregate the purchase or sale of securities for various client accounts in quantities sufficient to obtain reduced transaction costs (known as bunching). If we do not bunch orders when we have the opportunity to do so, we are required to explain our practice and describe the costs to clients of not bunching.

We perform investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm, which involve accounts with similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds using price averaging, proration and consistently non-arbitrary methods of allocation.

### **Item 13: Review of Accounts or Financial Plans**

- A. We do not provide written reports to clients, unless asked to do so. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to our Wrap Portfolio Management service.

We review accounts on at least a quarterly basis and more frequently with respect to investment strategies for our clients subscribing to our Wrap Portfolio Management service. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. We do not provide written reports to clients, unless asked to do so. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to our Wrap Portfolio Management service.

Only our Financial Advisors or Portfolio Managers will conduct reviews. We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

### **Item 14: Client Referrals & Other Compensation**

Pershing Advisor Solutions LLC ("PAS") makes available to our firm other products and services that benefit us but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our firm's accounts, including accounts not maintained at PAS.

PAS's products and services that assist our firm in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade

orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of our firm's fees from our clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

PAS also offers other services intended to help our firm manage and further develop our business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. PAS may make available, arrange and/or pay third-party vendors for the types of services rendered to our firm. Pershing Advisor Solutions LLC may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Pershing Advisor Solutions LLC may also provide other benefits such as educational events or occasional business entertainment of our firm's personnel. In evaluating whether to recommend or require that clients custody their assets at PAS, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by PAS, which may create a potential conflict of interest.

Our firm has received a loan from CAN in order to assist our firm with transitioning its business onto the CAN custodial platform. This loan may be forgiven by CAN based on the scope of business our firm engages in with CAN, including the amount of Client assets with CAN. This presents a conflict of interest in that our firm has a financial incentive to recommend that Clients maintain their accounts with CAN in order to benefit by having the loan forgiven. To the extent our firm recommends Client use of CAN for such services, it is because our firm believes that it is in the Client's best interest to do so based on the quality and pricing of the execution, benefits of an integrated platform for brokerage and advisory accounts, and other services provided by CAN.

Please note that the CAN loan has been forgiven according to our custodial arrangement and the potential benefits of this assistance have been exhausted, therefore reducing potential conflicts of interest in recommending the custodial services of CAN.

We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our firm in accordance with relevant state statutes and

## **Item 15: Custody**

While our firm does not maintain physical custody of client assets (which are maintained by a qualified custodian, as discussed above), we are deemed to have custody of certain client assets if given the authority to withdraw assets from client accounts, as further described below under "Standing Instructions." All of our clients receive account statements directly from their qualified custodians at least quarterly upon opening of an account. If our firm decides to also send account statements to clients, such notice and account statements include a legend that recommends that the client compare the account statements received from the qualified custodian with those received from our firm. Clients are encouraged to raise any questions with us about the custody, safety or security of their assets and our custodial recommendations.

The SEC issued a no-action letter ("Letter") with respect to the Rule 206(4)-2 ("Custody Rule") under the Investment Advisers Act of 1940 ("Advisers Act"). The letter provided guidance on the Custody Rule as well as clarified that an adviser who has the power to disburse client funds to a third party under a standing letter of instruction ("SLOA") is deemed to have custody. As such, our firm has adopted the following safeguards in conjunction with the account custodian:

- The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
- The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
- The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
- The client has the ability to terminate or change the instruction to the client's qualified custodian.
- The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
- The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
- The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

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

Clients have the option of providing our firm with investment discretion on their behalf, pursuant to an executed investment advisory client agreement. By granting investment discretion, our firm is authorized to execute securities transactions, determine which securities are bought and sold, and the total amount to be bought and sold. Limitations may be imposed by the client in the form of specific constraints on any of these areas of discretion with our firm's written acknowledgement.

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

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

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

We are not required to provide financial information in this Brochure because we do not require the prepayment of more than \$1,200 in fees and six or more months in advance, we do not take custody of client funds or securities, and we do not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients.

Our firm has never been the subject of a bankruptcy proceeding.