



## **Diversified Management, Inc.**

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## **Firm Brochure for Diversified Management, Inc.**

(Part 2A of Form ADV)

This brochure provides information about the qualifications and business practices of Diversified Management, Inc. and its DBA Cream City Investment Services. If you have any questions about the contents of this brochure, please contact us at (414) 292-1900. 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 Diversified Management, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note Diversified Management, Inc. is a registered investment adviser. The terms "registered" and "registered investment adviser" do not imply a certain level of skill or training.

March, 2021

## **Material Changes**

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### **Annual Update**

The “Material Changes” section of this brochure will be updated when material changes occur from the previous release of Diversified Management, Inc.’s (DMI) Firm Brochure.

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### **Material Changes since the Last Update**

- 1) The phone number for Diversified Management’s satellite office located in North Scottsdale has changed. The new number is the same as the Milwaukee office: (414) 292-1900.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: (414) 292-1900.

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## Advisory Business

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### Firm Description

Diversified Management, Inc. (“DMI”) was formed in Milwaukee, Wisconsin in 1993. The company’s principal place of business is in Milwaukee and a satellite office is located in North Scottsdale, Arizona.

DMI created the DBA Cream City Investment Services (“CCIS”) to accommodate those clients who may not have the required level of assets to invest with DMI.

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### Types of Advisory Services

DMI provides investment advisory, financial planning, and income tax services. Those services include cash flow management, retirement planning, analysis of executive benefits, charitable giving strategies, estate planning, analysis of education funding alternatives, life insurance sufficiency analysis, investment management, tax planning and income tax return preparation.

The majority of DMI’s clientele include high net worth individuals or families, trusts, and estates.

CCIS clients are provided access to DMI’s investment services via eight risk based investment models designed to implement the appropriate strategy that will be most effective for each CCIS client’s needs. In addition, CCIS offers financial planning services. These services include asset allocation, retirement planning, tax planning, college fund planning, and life insurance evaluation. Additional information regarding these services will be in other sections of this brochure.

### Diversified Management Inc. (DMI)

As part of DMI’s investment advisory services, we provide clients with personal advice including asset allocation, research and selection of mutual funds or investment managers, and monitoring the performance of investments. Monitoring includes measuring performance, tracking asset allocation with established client objectives, and advice concerning the liquidation and reinvestment of existing investments.

We provide ongoing review of investments for our DMI clients. Clients receive portfolio summaries at least quarterly, evaluating the investment holdings in comparison with relevant financial benchmarks. We generally prefer mutual fund investments when providing investment advisory services. Mutual fund investments are compared to peer group benchmarks and/or unmanaged indexes that include similar investment objectives, styles, and holdings. Other investments will be compared to unmanaged indexes representing the performances of similar assets not subject to the direction or influence of any single investment adviser.

When requested or as appropriate, we review and/or recommend specific investment opportunities that may be organized in the form of limited or general partnership interests. Those partnerships may include “alternative investments” intended to be neutral to the U.S. stock market wherein the underlying strategies are often varied among arbitrage techniques using stocks, bonds, commodities and/or currencies. We may also review and/or recommend partnerships formed to make private equity and/or venture capital investments. We are not compensated in any manner by any investment partnership we review or recommend.

DMI clients always maintain control of their assets and receive statements directly from the custodian (not less than quarterly). We obtain approval from clients to enter trades and implement decisions reached by the clients in connection with their investment objectives. Investment decisions are made with the input and approval of the client prior to implementation, unless the client specifically asks us to assume complete discretion in connection with the management of the investment account.

DMI is a fee-only financial planning and investment management firm. We do not sell commissioned products and we do not participate in wrap fee programs. The fee for our investment advisory service is addressed in a separate section below entitled “Fees and Compensation”.

### **Cream City Investment Services (CCIS)**

CCIS provides portfolio management services to clients using model asset allocation portfolios. Each model portfolio is designed to meet a particular investment objective based on levels of risk. CCIS offers eight separate risk based models. The models are as follows: Ultra Conservative, Conservative, Moderate Conservative, Balanced, Moderate Growth, Growth, Growth Alternatives, and Aggressive Growth. Each model will invest in securities and strategies consistent with the model objective. CCIS clients will invest in one of the eight model portfolios based on the client’s goals, objectives, and assessment of a risk tolerance questionnaire. This helps determine which model portfolio is suitable for the client. Clients may also choose his/her own model portfolio. In some cases, the client may prefer to have the advisor select a model on their behalf. If so, the advisors selection will be based on the model portfolio whose fixed income percentage most closely resembles the clients age. Once we confirm suitability, the portfolio is managed based on the portfolio's goal, rather than on each client's individual needs. Clients, nevertheless, have the opportunity to place reasonable restrictions on the types of investments to be held in their account. CCIS clients retain individual ownership of all securities.

Unlike the services provided for DMI clients, CCIS client’s investment decisions will be determined and guided by the portfolio model and strategy chosen.

Clients may change their choice of portfolio models by notifying CCIS directly. As a client’s age category changes, suggestions may be made to move their investment to a more conservative portfolio model. As an example, clients nearing the age of 60 may receive a recommendation to move from the moderate growth portfolio model to the balanced portfolio

model. From time to time, CCIS will use its risk tolerance questionnaire to confirm and make adjustments. All portfolio model choices are acknowledged by signature of the client.

We manage these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income). Model portfolios are not managed to achieve tax efficiencies. Tax considerations are a secondary consideration behind investment results and risk management.

Model portfolios are reviewed and, if necessary, rebalanced on a semi-annual basis. Once a CCIS client's portfolio has been established, we provide a portfolio performance summary every quarter. In addition, annual reviews are done for CCIS clients in order to ensure their model portfolio continues to be suitable and that the client's account continues to be managed in a manner consistent with the client's financial circumstances. We will provide the following:

1. Request an update for information regarding changes in the client's financial situation and investment objectives;
2. Be reasonably available to consult with the client, including an annual in-person meeting if the client so chooses; and
3. Maintain client suitability information in the client's file.

Fees for CCIS services will be directly debited from the clients account unless the Client prefers to pay the fees directly.

### **Multiple Model Portfolios**

CCIS clients may place earmarked funds in separate accounts that use different model portfolios. This is done in order to accommodate multiple goals and objectives for each separate account. For example, a client might select a model portfolio allocated towards a retirement goal and a different model portfolio designated to fund a child's college education.

### **Financial Planning Services**

Financial planning services are available to clients. The topics and assumptions addressed in financial plans are based on specific facts, resources and objectives of each client.

A financial plan may include, but is not limited to: a personal net worth statement, a cash flow projection, strategies for education funding, recommendations for revised allocations among investment categories, an income tax projection, and/or advice for updating estate planning documents.

The initial consultation between DMI or CCIS and a prospective client is free. During this meeting, we discuss the client's resources, goals and objectives. We determine the types of information/documents needed to proceed with a plan and discuss our fee for providing the service. Fees are set in advance, based on our estimate of the professional

time required to provide this additional service. We reconvene with our clients after their plan is prepared to present a thorough review of our recommendations.

### **Income Tax Services**

Tax planning and tax return preparation services are available to DMI and CCIS clients. Fees are determined by the professional time required to provide the additional services.

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## **DMI and CCIS Client Relationships**

The goals and objectives of each investment advisory client are broadly defined in an Investment Advisory Agreement (IAA). This document is a signed agreement between DMI or CCIS and our clients. It details the services we agree to provide in connection with the following:

- Assistance in establishing, reviewing and changing investment objectives of the account based upon the needs of the clients.
- Evaluation of asset allocation and the diversification of the account.
- Identification and selection of investment alternatives based upon the investment objectives of the account and the needs of the clients.
- Purchase or sale of investments consistent with the investment objectives, asset allocation and cash flow requirements of the clients.
- Ongoing review and monitoring of investment decisions, including the identification of asset reallocation and reinvestment alternatives for DMI clients.
- Quarterly reports summarizing the investment performance of the account.
- Regular communications with the clients to review performance, asset allocation, diversification and ongoing client investment objectives.

The IAA and our services may be terminated by the client at any time without any separate termination fee and may not be assigned to another advisor without client consent.

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## **Wrap Fee Programs**

DMI and CCIS do not participate in wrap fee programs.



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## Client Assets Under Management

The total amount of client assets that DMI manages is approximately \$1,363,628,668 as of December 31, 2020. Further details are shown below:

Discretionary Assets Managed:	\$ 1,288,917,247
Non-discretionary Assets Managed:	\$ <u>74,711,421</u>
Total Assets Managed:	\$1,363,628,668

## Fees and Compensation

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### Description

#### **Diversified Management, Inc. (DMI)**

DMI bases its investment advisory fees on a percentage of assets under management. We do not sell commissioned based products.

Investment advisory services are provided pursuant to a written investment advisory agreement between DMI and its clients. The fee schedule for investment advisory services is as follows:

<u>Assets Under Supervision</u>	<u>Annual Rate</u>
First \$500,000	1.25%
Next \$1,500,000 (between \$500,000 and \$2 million)	1.00%
Next \$2 million (between \$2 million and \$4 million)	.75%
Next \$6 million (between \$4 million and \$10 million)	.50%
Above \$10 million	.25%

Fees for all accounts may be negotiated, subject to mutual approval of the client and DMI. Current client relationships may exist where the fees are higher or lower than the fee schedule above.

#### **Cream City Investment Services (CCIS)**

Our annual fees for the model portfolio management services through CCIS are a flat fee charge of 1% of assets under management.

The minimum account size for CCIS clients is negotiable. In addition, CCIS may group certain related client accounts for purposes of calculating account size and determining the annualized fee.

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## **Fee Billing**

DMI and CCIS investment management fees are billed quarterly (in arrears), as soon as practical after the end of the previous calendar quarter. Invoices are forwarded to clients and payment is expected upon presentation of the invoice. This is usually done by deducting the fee from designated client accounts and directly depositing the monies in an account owned by DMI. All clients must consent in advance to fee payment according to the terms of their Investment Advisory Agreement (IAA). Alternatively, clients have the option of paying the invoice by writing a personal check.

Invoices for financial planning services are presented to the client and due upon delivery of the financial plan.

Invoices for tax planning and preparation of returns are presented to the client after tax returns are filed or the planning service is completed.

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## **Other Fees**

DMI and CCIS generally prefer no-load mutual fund investments when providing investment advisory services. As a result of this, clients will pay two advisory fees; the fee charged by DMI or CCIS as well as the fee of the advisor to the mutual fund (whose fees/expense ratios are further described in the prospectuses).

In addition, custodians may charge transaction fees on purchases or sales of investments including mutual funds, exchange-traded funds, stocks, bonds, and certificates of deposit. These service charges are usually small and incidental to the purchase or sale of a security.

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## **Fees Paid in Advance and Termination of Agreement**

DMI and CCIS do not charge fees in advance. All fees are for services already provided.

*Termination of the Advisory Relationship:* A DMI or CCIS client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. However, we reserve the right to remit an invoice upon termination for services performed prior to termination.

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## **Compensation for the Sale of Securities**

Diversified Management, Inc., is a fee-only financial planning and investment management firm. We do not sell commissioned products.

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## **Mutual Fund Fees**

All fees paid by DMI and CCIS clients for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

## **Performance-Based Fees**

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DMI and CCIS do not charge fees for profits earned by client investments. We do not charge performance-based fees – that is, fees based on sharing of capital gains and income earned by client investments.

## **Types of Clients**

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### **Description**

Our DMI clients are high net worth individuals, families, trusts, and estates.

The minimum dollar value of assets accepted for supervision by DMI is \$500,000. We reserve the right to waive that minimum for employees, relatives of employees, relatives of or referrals from existing clients, and/or if deposits to a new account will quickly lead to cumulative deposits exceeding \$500,000.

Our CCIS clients are typically individuals that do not meet the \$500,000 minimum account level.

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

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

We use the following methods of analysis in formulating our investment advice for our

DMI clients and CCIS model portfolio clients:

### **Methods of Analysis**

DMI and CCIS use fundamental analysis to evaluate investments.

Fundamental analysis means using economic and company-specific data (including factors such as interest rates, economic cycles, corporate management background, company financial conditions, etc.) in order to evaluate an investment.

The main sources of information include financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Other sources of information that we may use include Morningstar Advisor Workstation, Charles Schwab & Co. Inc. Advisor Services, and the internet.

### **Risks for all Forms of Analysis**

Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

### **Investment Strategies**

Our DMI and CCIS investment philosophy starts with the basic premise that the direction of the market in the short-run is not predictable. Thus, a client's risk exposure cannot be managed by attempting to move into and out of investments in advance of material price movements. In other words, the markets can't be timed. To manage the dual objectives of achieving acceptable long-term returns with acceptable risk exposure, both DMI and CCIS rely on developing asset allocation strategies unique to individual client situations or by utilizing the model portfolios.

A key objective in developing any asset allocation strategy is diversification. Diversification is achieved by combining investments with different risk characteristics and low correlations. With any asset allocation strategy, there is an expected return and an expected level of risk. The key is to match the expected rate of return and risk to the client's expectations.

Some clients choose to hire DMI or CCIS to develop detailed long-term financial plans. Plan assumptions such as expected fixed cash flows (salary, pension, social security), spending requirements, rates of inflation, and life expectancy often help to deduce a target investment return. For other clients, we rely on discussions with them regarding their long-term goals and objectives to decide on acceptable target rates of return and levels of risk.

All types of investing involve certain levels of risk. It is important that clients recognize and understand that the value of their investments may be more or less than the original purchase prices at any point in time. Investing in securities involves risk of loss that clients should be prepared to bear.

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## **DMI Investment Strategies**

DMI uses several main investment strategies for client portfolios. The first step is to work with the client to develop their overall asset allocation. The asset allocation governs how to use our underlying investment strategies including cash management, fixed income, and mutual funds.

Some sophisticated investment clients might consider using additional investment strategies to enhance their asset allocations. These strategies include separate investment management accounts with independent managers, hedge funds and illiquid investments such as real estate and privately-held companies.

For most clients, no-load mutual funds are the most effective vehicles for obtaining exposure to the equity markets. For clients with investment assets of \$3 million or more, separate managed accounts might be considered in lieu of or in addition to equity mutual funds.

The criteria for selecting separate account managers are identical to the criteria for selecting mutual funds. Mutual funds and separate account managers are selected based on a screening process which includes evaluation of criteria including the following:

- Historical rate of return performance compared to relevant peer group and unmanaged market indexes.
- Historical volatility of return compared to relevant peer group and unmanaged market indexes.
- Historical management fees and transaction costs where lower is better.
- Sensitivity of the managers to income tax implications of transactions on client investors.

DMI recognizes that hedge funds and illiquid investments can be an effective way to increase returns and enhance diversification in client portfolios. But given their unique risk factors, illiquidity, and investment minimums, they are only appropriate for investors with investment assets of \$5 million or more.

The implementation of the strategies mentioned above can include long-term purchases, short-term purchases, margin transactions, and option writing (including covered options and uncovered options).

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## **CCIS Investment Strategies**

As previously stated in this brochure, CCIS utilizes eight model portfolios each focusing on a specific level of risk. They include the Ultra Conservative, Conservative, Moderate

Conservative, Balanced, Moderate Growth, Growth, Growth Alternatives and Aggressive Growth.

The principal strategies for managing each model portfolio are substantially similar to the strategies implemented for the DMI clients. However, the holdings inside CCIS model portfolios will be limited to mutual funds and ETF's.

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## **Risk of Loss**

One of the objectives of the investment strategies used by DMI and CCIS is to manage and, to the extent possible, contain portfolio risk. However, all investments have certain risks that are borne by the investor.

CCIS will invest client monies in several types of mutual funds and ETFs. DMI can invest client monies in several types of mutual funds, ETFs, fixed income securities, separate accounts, and alternative investments. These include (but are not limited to) money markets, bank issued certificates of deposit (CD), corporate bonds, government agency bonds, municipal bonds, managed bond funds, equity mutual funds, stocks, options, etc. Some of the risks associated with these types of investments include (but are not limited to) interest rate risk, market risk, inflation risk, default risk, reinvestment risk, business/operational risk, liquidity risk, and financial risk. See below for definitions on the various types of risks.

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds/CDs become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Default Risk:** The risk that companies will be unable to make the required payments on their debt obligations.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business/Operational Risk:** These risks are associated with a particular industry or a particular company within an industry. It is a broad concept which focuses on the risks arising from the people, systems and processes through which a company operates.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** This is an umbrella term for any risk associated with any form of financing. Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

It is important to recognize that any one or more of these risks can affect the value of client investments, causing the value to be more or less than the original purchase prices at any point in time.

## **Disciplinary Information**

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### **Legal and Disciplinary**

DMI, CCIS, and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Financial Industry Activities**

DMI and its DBA CCIS are registered with the Securities and Exchange Commission (SEC) as a registered investment adviser. Our firm is not a securities broker-dealer.

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### **Additional Registrations**

DMI and CCIS are not registered as a futures commission merchant, commodity pool operator or commodity trading advisor.

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### **Affiliations**

DMI and its DBA CCIS are an employee owned company. Our firm does not have affiliations or outside arrangements that are material to our business.

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

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## **Code of Ethics**

Our firms' status as a fiduciary and SEC registered investment adviser requires all personnel to strictly adhere to its compliance program. As part of the compliance program, our Code of Ethics addresses the areas of ethics, confidentiality, trading in client accounts and trading in personal accounts. We will provide a copy of the Code of Ethics to any client or prospective client upon request.

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## **Participation or Interest in Client Transactions**

All employees of DMI and CCIS must put client's interests ahead of our own. Our Code of Ethics has been designed to avoid situations that give rise to actual or potential conflicts of interest.

For example, personnel shall not borrow money or securities from, or lend money or securities to clients. DMI and CCIS personnel do not recommend securities in which we have material financial interests. In addition, we require all personnel to obtain pre-approval for participation in Initial Public Offerings (IPOs) and Limited or Private Offerings. The criteria for granting pre-approval will include, among other factors, whether the investment opportunity should be reserved for clients.

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## **Personal Trading**

DMI and CCIS have adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

We and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Our Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal



or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by calling us at (414) 292-1900.

Every quarter, the Chief Compliance Officer of DMI reviews all trades executed by the firm's personnel. In order to help assure compliance with this policy, any brokerage activity conducted by DMI or CCIS personnel must be in accounts at Charles Schwab & Co., Inc. and, therefore, visible for internal review by DMI.

There are several layers of review when associates make a personal trade. For example, no personal trades may be entered without the approval of two authorized personnel. In addition, DMI has a Restricted List that prohibits associates from entering into any form of transaction concerning the securities or derivative securities of certain companies. The Restricted List is maintained due to our client relationships with executives and insiders at publicly-traded companies.

All employee trades are small mutual fund, stock or bond trades and these types of trades do not affect the securities markets. Nonetheless, our personal trading policies are meant to ensure the treatment of our clients is ahead of our own.

## Brokerage Practices

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### Selecting Brokerage Firms

DMI and its DBA CCIS offers its clients total objectivity without bias toward any financial product. We are a fee-based investment advisor and do not receive commissions from investments bought or sold for clients. As a result, our main investment strategies focus on recommending no-load mutual funds to our clients. The mutual funds are priced daily according to the net asset value ("NAV"). Stocks and bonds are also traded in client accounts on occasion.

DMI and CCIS use the services of Charles Schwab & Co., Inc. ("Schwab"). We do not maintain physical custody of assets on which we advise, although we may be deemed to have custody of assets if clients give us authority to withdraw or transfer assets from their account (see *Item 15 – Custody*, below). Client assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. We request that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. DMI is independently owned and operated and is not affiliated with Schwab. Schwab will hold client assets in a brokerage account and buy and sell securities under our instruction, subject to client authorization. While we request that clients use Schwab as custodian/broker, clients decide whether to do so and will open an account with Schwab by entering into an account agreement directly with them. Conflicts of interest associated with this arrangement are described below. We do not open accounts for our clients, although we may assist clients in doing so. Even though client accounts are maintained at Schwab, we can still use other brokers to execute trades for client accounts as described below (see "*Client Brokerage and Custody Costs*").

### **How We Select Brokers/Custodians**

We seek to use a custodian/broker who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see *“Products and Services Available to Us From Schwab”*)

### **Client Brokerage and Custody Costs**

For our clients’ accounts that Schwab maintains, Schwab generally does not charge the clients separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into the client’s Schwab account. Certain trades (for example, many mutual funds and ETFs) may not incur Schwab commissions or transaction fees. Schwab is also compensated by earning interest on the un-invested cash in client accounts in Schwab’s Cash Features Program. Schwab’s commission rates applicable to our client accounts were negotiated as a condition of our use of their services. This commitment benefits our clients because the overall commission rates clients pay are lower than they would be otherwise. In addition to commissions, Schwab charges client accounts a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client’s Schwab account. These fees are in addition to the commissions or other compensation clients pay the executing broker-dealer. Because of this, in order to minimize trading costs, we have Schwab execute most trades for client accounts. We have determined that having Schwab execute trades is consistent with our duty to seek “best execution” of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see *“How We Select Brokers/Custodians”*).

For clients that decide to establish or maintain accounts outside of Schwab, DMI will obtain written approval of clients wherein we are provided authority to enter transactions on behalf of clients. However, we may be unable to achieve most favorable execution on transactions executed in the non-Schwab accounts. As a result, the client may pay higher brokerage commissions and/or receive less favorable prices on trade executions. Furthermore, if clients direct the use of a particular broker or dealer for all or a portion of the trades executed in the client's account, it is understood that, with respect to the percentage of trades effected by such direction:

- DMI will not have authority to negotiate commissions among various broker dealers on a trade-by-trade basis,
- or necessarily obtain volume discounts, and
- best execution may not be achieved.

In addition, a disparity in commission charges may exist between the commissions charged to the client for such trades and those charged to other clients.

### **Products and Services Available to Us From Schwab**

Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage services—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. However, certain retail investors may be able to get institutional brokerage services from Schwab without going through us. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us. Following is a more detailed description of Schwab's support services:

**Services That Benefit Our Clients.** Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit clients and their accounts.

**Services That May Not Directly Benefit Our Clients.** Schwab also makes available to us other products and services that benefit us but may not directly benefit clients or client accounts. These products and services assist us in managing and administering our clients' accounts and operating our firm. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and

account statements)

- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

### **Services That Generally Benefit Only DMI**

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers
- Marketing consulting and support

Schwab provides some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also discounts or waives its fees for some of these services or pays all or a part of a third party's fees. Schwab also provides us with other benefits, such as occasional business entertainment of our personnel. If clients did not maintain accounts with Schwab, we would be required to pay for these services from our own resources.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. From time to time, Schwab has agreed to pay up to several thousand dollars we would otherwise incur for technology, research, marketing, and compliance products and services. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The fact that we receive these benefits from Schwab is an incentive for us to recommend the use of Schwab rather than making such a decision based exclusively on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "*How We Select Brokers/Custodians*") and not Schwab's services that benefit only us.

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### **Order Aggregation**

The majority of trades we execute are for mutual funds. Therefore, trade aggregation does

not provide a benefit for our clients.

## **Review of Accounts**

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### **Periodic Reviews**

DMI typically initiates client reviews on a quarterly or semi-annual basis. Reviews are performed by advisors specifically assigned to the client account. Reviewers include Michael P. Schmidt (Chairman, President and Chief Compliance Officer), Michael P. Egan (Managing Director and Chief Investment Officer), Jason R. Miller (Senior Vice President), Chad A. Thistle (Chief Financial Officer), and Garren L. Agle (Vice President and Chief Information Officer).

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### **Review Triggers**

The frequency of reviews depends on the complexity of and/or arrangement with the client. Reviews include a determination of tax or financial planning steps taken since the last review, and an examination of current client needs in the areas of cash flow, investments, taxes, insurance and retirement planning. Reviews also include a summarization of steps to be taken prospectively to implement new or existing client financial objectives.

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### **Regular Reports**

Clients engaging DMI for investment advisory services receive, at a minimum, a written quarterly analysis summarizing the value and performance of the investments under the supervision of DMI. Clients engaging DMI for financial planning services may also receive various written reports of net financial worth, income tax projections, tax return preparation, cash flow projections, asset allocation and/or other analytical reports whenever they are deemed needed by us or the client.

Note that CCIS clients will receive a written correspondence at least quarterly but will not receive the same information or level of service as DMI full service clients. Please refer to the other sections of this brochure for more detailed differences between DMI and CCIS services.

## **Client Referrals and Other Compensation**

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### **Economic Benefit**

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. You do not pay more for assets maintained at Schwab as a result of these arrangements. However, we benefit from the referral arrangement because the cost of these services would otherwise be borne directly by us. You should consider these conflicts of interest when selecting a custodian.

The products and services provided by Schwab, how they benefit us, and the related conflicts of interest are described above (see *Item 12 – Brokerage Practices*).

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## **Client Referrals**

DMI and its DBA CCIS maintain the acquaintance of many providers of various professional services. Those relationships include but are not limited to attorneys, accountants, bankers, brokers, insurance agents, investment managers and appraisers. We will gladly receive a gratuitous client referral from any other professional and may similarly provide referrals to those same professionals when a client of ours desires legal, accounting, banking, brokerage, insurance, investment management and/or appraisal services. The only compensatory arrangement we have for referral business from outside parties is with GS Advisors LLC, as covered below under the heading “Other Compensation”.

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## **Other Compensation**

DMI and its DBA CCIS have entered into a Solicitation Agreement (the Agreement) with GS Advisors, LLC (GS Advisors). GS Advisors is the investment advisory affiliate of Goossen & Schulz CPAs, S.C., a public accounting firm. The Agreement is a non-exclusive arrangement whereby DMI has agreed to pay GS Advisors a percentage of fees earned by DMI for service to clients introduced by GS Advisors. The percentage of fees paid to GS Advisors depends on the average value of the investments managed for those clients by DMI during the preceding calendar quarter. Each client is provided with a written disclosure statement concerning this relationship before they sign an investment advisory agreement with DMI. CCIS may use a Solicitation Agreement with GS Advisors at the discretion of CCIS.

## **Custody**

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### **Account Statements**

Under government regulations, we are deemed to have custody of client assets if, for example, clients authorize us to instruct Schwab to deduct our advisory fees directly from the client account or if clients grant us authority to move assets to another account. The latter authorization, also known as a “third party” transfer, is achieved by DMI through a Standing Letter of Authorization (SLOA) from the client. The SLOA grants DMI permission to transfer assets on behalf of the client. Schwab maintains actual custody of client assets. Clients receive account statements directly from Schwab at least quarterly. Account statements are sent to client’s email or postal mailing address provided to Schwab. Clients should carefully review those statements promptly upon receipt. We also urge clients to compare Schwab’s account statements to the periodic portfolio reports received from us.

All other assets are held at qualified custodians, which means the custodians provide

account statements directly to clients at their address of record at least quarterly.

DMI is also deemed to have custody of client assets through shared website credentials, and for those accounts where DMI advisers function as trustee, general partner, agent, or power of attorney.

## **Investment Discretion**

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### **Discretionary Authority for Trading**

DMI clients have provided us with limited power of attorney to make trades in their investment accounts, mainly held with Charles Schwab & Co., Inc. We obtain approval from clients to enter trades and implement decisions reached by the clients in connection with their investment objectives and strategy. This service is for the convenience of the client and DMI in order to limit the necessity of conference calls with brokers or mutual fund management companies. Investment decisions are usually made with the input and approval of the client prior to implementation, unless the client specifically asks us to assume complete discretion in connection with the management of the investment account.

CCIS clients have provided us with full discretionary authority whereas trades are automatically transacted.

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### **Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. The limited power of attorney is incorporated in the new account application that clients sign in order that we may execute the trades approved by clients.

## **Voting Client Securities**

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### **Proxy Votes**

Unless the client designates otherwise, DMI and CCIS vote proxies for securities over which it maintains discretionary authority consistent with its proxy voting policy.

Proxies are reviewed for any potential conflicts of interest. Examples of conflicts of interest include whether DMI: a) personnel have business or personal relationships with participants in proxy contests, corporate directors, or candidates for directorship; b) has an investment advisory relationship with executives benefiting from executive compensation plans on the proxy; c) we provide advisory services to a company whose management is soliciting proxies; d) has any other situation that could be construed as a conflict of interest by disinterested third parties. If a conflict of interest is present, we contact the affected client(s) and explain the circumstances. If no conflict of interest exists, DMI and CCIS consider voting with the recommendations of the board of directors.

A copy of our proxy voting policy is available upon request. If a conflict of interest exists, it will be disclosed to the Client. Clients are provided information on how their shares were voted upon request.

## **Financial Information**

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### **Financial Condition**

DMI is not required to include a balance sheet. Our firm does not require or solicit prepayment of more than \$1,200 in fees (per client) nor do we require payment six months or more in advance.





## **Diversified Management, Inc.**

**330 E. Kilbourn Ave., Suite 1475**

**Milwaukee, WI 53202**

**Phone (414) 292-1900**

**Fax (414) 292-1914**

**[www.diversifiedmanagement.com](http://www.diversifiedmanagement.com)**

### **Brochure Supplement**

## **Diversified Management, Inc.**

(Part 2B of Form ADV)

This brochure supplement provides information about Michael P. Schmidt, Michael P. Egan, Jason R. Miller, Chad A. Thistle, and Garren L. Agle that supplements the Diversified Management, Inc. (“DMI”) and DBA, Cream City Investment Services (“CCIS”) brochure. You should have received a copy of that brochure. Please contact us at (414) 292-1900 if you did not receive a copy of DMI’s brochure or if you have any questions about the contents of this supplement.

Additional information about the individuals named above is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**March, 2021**

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## Educational Background and Business Experience

Diversified Management, Inc. requires advisors employed by the firm achieve certain educational standards. Advisors will, at a minimum, have one or more of the following professional designations: Certified Public Accountant (CPA), Certified Financial Planner (CFP®), Chartered Financial Analyst (CFA), Certified Investment Counselor (CIC), or Chartered Life Underwriter (CLU).

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## Professional Certifications

Employees of Diversified Management, Inc. have earned certifications and credentials that are required to be explained in further detail.

Certified Financial Planner (CFP): Certified Financial Planners are licensed by the CFP Board to use the CFP mark. CFP certification requirements:

- Bachelor's degree from an accredited college or university.
- Completion of the financial planning education requirements set by the CFP Board ([www.cfp.net](http://www.cfp.net)).
- Successful completion of the 10-hour CFP® Certification Exam.
- Three-year qualifying full-time work experience.
- Successfully pass the Candidate Fitness Standards and background check.

Certified Public Accountant (CPA): Certified Public Accountants are licensed by the American Institute of Certified Public Accountants. CPA certification requirements:

- Successful completion of Uniform CPA Exam.
- Hold a U.S. bachelor's degree which includes a minimum number of qualifying credit hours in accounting and business administration.
- Successful completion of an ethics exam.
- Complete annual Continued Educational exam requirements.

Enrolled Agent (EA): Enrolled Agents are enrolled by the Internal Revenue Service and authorized to use the EA designation. EA enrollment requirements:

- Successful completion of the three-part IRS Special Enrollment Examination (SEE), or completion of five years of employment by the IRS in a position which regularly interpreted and applied the tax code and its regulations.
- Successfully pass the background check conducted by the IRS.

Masters of Science in Taxation (MST): This designates a professional graduate degree specifically designed for individuals specializing in tax. MST graduate requirements include:

- Successful completion of the 30 semester credit hours in tax and business

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courses.

- MST tax courses may include tax research, individual tax, corporate tax, and partnership tax.

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**Michael P. Schmidt (CFP)**

- Year of Birth: 1968
- Formal Education: University of Wisconsin-Whitewater (BSBA, 1990)

Business Experience:

- Diversified Management, Inc., Chairman, President and Chief Compliance Officer (employed 1996 – to present)

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision: Mr. Schmidt is responsible for maintaining DMI's internal controls, policies, and procedures through its compliance program and is a member of the investment policy committee.

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**Michael P. Egan (CFP)**

- Year of Birth: 1973
- Formal Education: University of Wisconsin-LaCrosse (BSBA, 1996)

Business Experience:

- Diversified Management, Inc. Managing Director and Chief Investment Officer (employed 1998 – to present)

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision: Mr. Egan is responsible for maintaining DMI's investment policy committee and Michael P. Schmidt is responsible for reviewing Mr. Egan's compliance responsibilities.

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**Jason R. Miller (CFP)**

- Year of Birth: 1977
- Formal Education: Marquette University (BSBA, 1999)

Business Experience:

- Diversified Management, Inc., Senior Vice President (employed 1999 – to

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present)

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision: Michael P. Schmidt is responsible for reviewing Mr. Miller's compliance responsibilities.

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**Chad A. Thistle (CFP, MST, EA)**

- Year of Birth: 1976
- Formal Education: University of Wisconsin-Milwaukee (MST, 2004)  
University of Wisconsin-Whitewater (BSBA, 1998)

Business Experience:

- Diversified Management, Inc., Vice President and Chief Financial Officer  
(employed 2004 – to present)

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision: Mr. Thistle is responsible for maintaining DMI's financial statements and Michael P. Schmidt is responsible for reviewing Mr. Thistle's compliance responsibilities.

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**Garren L. Agle (CFP)**

- Year of Birth: 1981
- Formal Education: University of Wisconsin-Whitewater (BSBA, 2003)

Business Experience:

- Diversified Management, Inc., Vice President and Chief Information Officer  
(employed 2006 – to present)

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision: Mr. Agle is responsible for maintaining DMI's technology infrastructure and Michael P. Schmidt is responsible for reviewing Mr. Agle's compliance responsibilities.