

**Item 1 Cover Page**

**Form ADV, Part 2A**

**Firm Brochure**

**Heydorn|Stone Capital Management LLC  
600 Mamaroneck Avenue, Suite 400  
Harrison, NY 10528**

Phone: 914-752-5300

Phone: 888-752-5589

Fax: 914-752-5302

[www.heydornstone.com](http://www.heydornstone.com)  
[alana@heydornstone.com](mailto:alana@heydornstone.com)

This Firm Brochure provides information about the qualifications and business practices of Heydorn|Stone Capital Management LLC. If you have any questions about the contents of this Firm Brochure, please contact us at: 914-752-7300, or by email at: [alana@heydornstone.com](mailto:alana@heydornstone.com).

The information in this Firm Brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority. Heydorn|Stone Capital Management LLC is a Registered Investment Advisor. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training. Additional information about Heydorn|Stone Capital Management LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

March 10, 2021

## **Item 2 Material Changes**

This Item only addresses material changes since our last Firm Brochure filed on January 6, 2020. There were no material changes. Heydorn|Stone Capital Management LLC encourages all current and prospective clients to review the entire Firm Brochure.

**Item 3**  
**Table of Contents**

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

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

Heydorn|Stone Capital Management LLC is an independent Registered Investment Adviser (RIA) established in June 2001. The owners are Margaret S. Heydorn and Alana M. Stone.

Heydorn|Stone Capital Management LLC (“Heydorn|Stone Capital Management”, “HSCM”, “we”, “us” or “our”) primarily offers discretionary investment management services to individuals for their individual investment portfolios, for trust accounts on which they are a named trustee, their various retirement plans such as IRAs, Roth IRAs, SEP IRAs or their pension or profit sharing plans, as well as for endowments, foundations and corporations.

In addition, HSCM may provide financial planning and consulting services to its clients. Depending on a client’s needs these services could include comprehensive financial planning, retirement planning, planning for college funding, and client 401(k) plan option selection.

##### Investment Management Services

HSCM takes a client-centered approach to developing an investment strategy for each individual client with a focus on determining an appropriate asset allocation to help achieve the client’s financial goals. Individually tailored portfolios are structured based on the investment objectives, time horizon, cash flow needs, restrictions, and risk profile of the client as well as the value of assets under management.

Based on the financial information provided by the client, HSCM assists the client in defining their investment goals. Upon review of this information, HSCM may recommend investment strategies and investment vehicles for the client. HSCM receives investment discretion to implement transactions in the client’s account in line with the objectives and strategy agreed upon. It is understood that HSCM provides investment advice to clients with varying objectives and that advice may vary in the timing or nature between clients.

Investments in individual portfolios may include any combination of the following vehicles as appropriate for the client:

- Transaction fee or non-transaction fee mutual funds. Most HSCM clients hold non-transaction fee funds. Although, HSCM does buy transaction fee funds when beneficial to the client. These include:
  - a. stock funds comprised of small, medium and large sized companies, both domestic and international, including developed and emerging economies, with varying investment strategies
  - b. bond funds comprised of US corporate, government, or municipal bonds of varying durations as well as international bond funds of both developed and emerging markets

- c. specialty mutual funds which focus on a particular area or sector of the market such as natural resources, commodities, etc.
- Individual US corporate, governments, municipal bonds, and traded bank certificate of deposits (CDs)
- Exchange Traded Funds (ETF) covering all of the above categories. ETFs are market traded baskets of stocks or bonds focusing on a specific index or sector of the market. These instruments are used to further diversify holdings in a portfolio.

HSCM generally does not recommend individual stocks. However, if a client wishes to have a portfolio of individual stocks, HSCM is able to recommend a separate account manager from a broad array of styles and firms participating in Charles Schwab & Co., Inc. (Schwab) Separate Account Manager Program. A comprehensive review is performed of investment managers selected for this program. These firms are not affiliated with HSCM and are selected by HSCM based on their suitability in client accounts. Client accounts are managed solely by HSCM and manager changes are recommended by HSCM as appropriate.

Individual stocks may also be transferred into a client's account at HSCM. It is the policy of HSCM to liquidate them as soon as practical to transition the account in accordance with the client's strategy. If there are particular stocks that a client wishes to retain, we may accommodate them on an unmanaged basis within the account.

Clients may impose reasonable restrictions on HSCM's services which may include restrictions on investing in certain securities or types of securities

Discretionary assets under management as of December 31, 2020 were approximately \$92,112,000. We have no non-discretionary assets under management.

#### Financial Planning Services:

Clients with at least \$250,000 of assets under management may request a complimentary financial plan. The client provides HSCM with information regarding their current position in terms of investments, insurance, tax, retirement and estate planning.

Upon completion of an analysis of the information provided, HSCM may recommend suitable financial planning and investment strategies. These recommendations may focus on one or more of the following areas:

- Comprehensive Financial Planning
- Investment Planning
- Retirement Planning
- College Planning

HSCM provides the client with a written report of all the analysis and recommendations based on the extent of the plan required. Implementation of the recommendations is at the discretion of the client.

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

HSCM's investment advisory fees are generally based on a percentage of assets under management. Fees are billed quarterly in arrears based on the market value on the last day of the quarter, adjusted for contributions and withdrawals. Billing amounts may be rounded to nearest dollar. We reserve the right, in our sole discretion, to negotiate fees under special circumstances. For accounts with under \$500 in market value, HSCM reserves the right to not charge a fee and will not send quarterly performance packages for these accounts. However, the accounts may remain open with the custodian for future investing and will continue to receive monthly statements from the custodian.

HSCM's standard fee schedule is:

1.00% per annum on the first \$1,000,000 of assets under management  
0.75% per annum on the next \$2,000,000 of assets under management  
0.50% per annum on the next \$2,000,000 of assets under management  
0.25% per annum on the balance over \$5,000,000 under management

Minimum quarterly fee \$625

It is HSCM's policy to debit management fees directly from client accounts. If a client has more than one account, HSCM may be instructed to debit fees for all accounts from one account. Fees for partial quarters, such as the initial quarter, are pro-rated for the period the funds were managed. In certain circumstances HSCM may accept payment of management fees by check. An additional administrative fee of \$25 per account per quarter is charged for this accommodation. If payment by check is not made by the end of the second month following the quarter end, HSCM reserves the right to debit management fees directly from the account. In this circumstance, we will debit fees from any available taxable account(s) first or, if necessary, from any tax-exempt account(s).

HSCM has entered into an agreement with Charles Schwab & Co., Inc. (Schwab) to provide custodial services to its clients. Trading executions are predominantly done through Schwab. The client may incur charges imposed directly by the custodian of the client's account, transaction charges imposed by the broker-dealer executing securities transactions for the client's account, and fees and expenses imposed directly by mutual funds held in or for the client's account. The fees and expenses imposed by mutual funds are described in each fund's prospectus, and will generally include a management fee, other fund expenses, and a possible distribution fee. Certain funds also impose initial or deferred sales charges known as "loads." If HSCM selects one of these funds for its

clients, they are purchased with the load waived. The client should review both the fees charged by the funds and the fees charged by HSCM to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided. For further discussion concerning HSCM's brokerage practices, please see Item 12 of this Firm Brochure.

HSCM does not receive any portion of fees charged by Schwab, the mutual funds, or any other broker.

### **Item 6 Performance Based Fees**

Heydorn|Stone Capital Management does not provide any services for performance-based fees. Performance-based fees are those based on a share of the capital gains on or capital appreciation of the assets of a client.

### **Item 7 Types of clients**

Heydorn|Stone Capital Management provides investment advisory services to individuals, high net worth individuals, trustees, pension and profit sharing plans, and charitable organizations.

The minimum investment relationship size is \$250,000.00. Minimum requirement exceptions may be made if the account is part of an existing client relationship or if additional deposits will be made within a reasonable time frame.

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

#### **Methods of Analysis**

HSCM's investment selection process include both a qualitative and quantitative approach utilizing various industry tools, websites, periodicals, annual reports, prospectuses, SEC filings, and research prepared by others such as Morningstar Advisor, Riskalyze, Schwab Institutional Research, Wall Street Journal Market Data, Stock Charts, Bloomberg, and others.

#### Transaction Fee, Non-Transaction Fee Mutual Funds and Closed End Funds

HSCM may select mutual funds on the basis of any or all of the following criteria: historical performance, risk profile, investment style and philosophy, sector allocation, portfolio manager's track record, and the fund's fee structure.

Stock and bond mutual funds that are in the top quartile are screened and sorted by strategy (domestic, global, and international; large, mid and small cap) and by style

(growth, value, or blend.) Performance is reviewed over 3, 5, and 10 year periods seeking funds that beat peer funds and their relevant index, and those who demonstrate consistent performance. Funds are then evaluated on their risk vs. return profile and those offering the lowest risk and highest return are selected for further review.

The expertise and track record of the fund's portfolio manager(s) is researched taking into consideration the length of time he/she has managed the fund and prior fund management history, if any. The largest sectors and top 10 holdings of the portfolio are also reviewed to confirm the fund's asset class and style classification and assess the volatility of the holdings. We monitor any major change to the fund's investment guidelines or portfolio management structure. The change is evaluated and HSCM makes a decision whether to sell the fund immediately or place on a watch list for further evaluation. HSCM also may participate in selected interviews and conference calls with fund managers and may meet with fund representatives periodically to get updates and review offerings.

Most HSCM accounts hold only non-transaction fee funds however large accounts may contain both transaction fee and non-transaction fee funds if beneficial to the client. Generally, transaction fee funds carry lower expense ratios than non-transaction fee funds. They are used as core holdings that represents the portfolio's target weight and are expected to be held for at least a year. Analysis is performed to ensure that the cost of the transaction fees are offset by the lower expense ratio before the purchase is made. Non-transaction fee funds may be purchased to add additional weight to a portfolio and may be sold at any time without a transaction fee to bring a portfolio back to its target weighting. Generally transaction fee funds require high minimums investments in that fund therefore clients are often placed in non-transaction fee funds initially. HSCM may review clients' accounts with assets over \$1MM and may convert the "target" allocation for these clients from "non-transaction fee" to transaction fee shares where possible and appropriate. This may result in clients holding both transaction fee and non-transaction fee mutual fund shares.

#### Individual corporate, governments and municipal bonds, and marketable bank Certificate of Deposits

HSCM receives its primary research on individual bonds from the Schwab Institutional Bond Trading desk and has access to other secondary bond brokers. Bonds are viewed by type, maturity, and credit rating. Additional research is performed on the underlying company, agency, or municipality. Bonds are generally held to maturity in a ladder portfolio with monitoring of risk but may also be sold prior to maturity as appropriate.

#### Exchange Traded Funds (ETFs)

ETFs are used in portfolios where specific index funds are appropriate or to provide additional diversification to specific areas of the market. Research sources and procedures similar to those used for mutual funds are used.



## **Investment Strategies**

The primary investment strategy used at Heydorn|Stone Capital Management is diversification through asset allocation. With adequate diversification portfolio volatility may be reduced over time to allow more consistent investment performance with less risk.

HSCM uses a combination of a strategic and a tactical approach to asset allocation. The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The overall strategy for the client should remain constant unless there are material changes to the client's objectives or circumstances – this is the strategic allocation. However, based on the market conditions or short term needs of the client we may need to shift the allocation – this is the tactical allocation.

HSCM uses six asset allocation models ranging from the most aggressive all equity allocation to the most conservative capital preservation allocation model. A target allocation creates the baseline position for the portfolio, the strategic allocation. Target minimum and maximum ranges provide the tactical leeway allowed within the model based on market or temporary conditions without changing the overall objective driving the asset allocation. If a client's overall objectives or circumstances have changed we may adjust the overall strategy and change the asset allocation model as appropriate. The client may change these objectives at any time.

Individual stocks may be transferred into a client's account at HSCM. It is the policy of HSCM to liquidate them as soon as practical to transition the account in accordance with HSCM's strategy. If there are particular stocks that a client wishes to retain, it is generally accommodated on an unmanaged basis within the account and is included on the client's statement of holdings in an "unmanaged" category.

HSCM investment strategies are designed for long-term investors and are not appropriate for investors who want to engage in short term trading of mutual funds or frequently move among investment managers in anticipation of or in reaction to short-term market trends. HSCM recommends that investors carefully review the investment risks and tax consequences inherent in any investment strategy before it is implemented.

## **Risk of Loss**

All investments have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind and having a well-diversified portfolio across many asset classes is an attempt to mitigate them. However, investing in securities involves risk of loss that all clients should be prepared to bear. All investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause bond prices to fluctuate. For example, if interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of any security - bond, stock, mutual fund, or ETF - may drop in reaction to events and conditions caused by external factors independent of a security's particular underlying circumstances. For example, significant market disruptions, such as those caused by pandemics, natural or environmental disasters, war, acts of terrorism, or other events, can adversely affect local and global markets and normal market operations. Market disruptions may exacerbate political, social, and economic risks.
- **Inflation Risk:** If any type of inflation is present, a dollar today may not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments and companies with overseas business are subject to fluctuations in the value of the dollar against the currency of the originating country. This is also referred to as exchange rate risk.
- **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 Risk:** These risks are associated with a particular industry or a particular company within an industry.
- **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 is not.
- **Financial Risk:** Excessive borrowing to finance business operations increases the risk of profitability, because companies must meet the terms of their obligations in good times and bad. During periods of financial stress, the inability to obtain loans or meet loan obligations may result in bankruptcy and/or a declining market value.
- **Exchange Traded Funds Risk (ETFs):** ETFs are typically investment companies that are legally classified as open end mutual funds or UITs. However, they differ from traditional mutual funds, in particular, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies and the market price for a share of an ETF may fluctuate from the value of its underlying securities. Consequently, ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and the ask price is often referred to as the "spread", which generally varies based on the ETF's trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940, some ETFs, in particular those that invest in commodities, are not registered as an investment company.

With respect to the use of Independent Managers, such an Independent Manager may have had historical success, but such success does not guarantee any future success. In addition, as the firm does not select the underlying investments that may be used by such an Independent Manager, one or more Independent Managers used by the firm to manage the client's assets may purchase the same security, increasing the risk to the client if that security were to fall in value. Clients should review the Independent Managers' disclosure documents for the investment risks for that manager and the underlying investments.

The discussion of risks above is not meant to be a complete description of all risks that clients may face. Additional risks are disclosed by the funds in their prospectuses. Clients should be prepared to bear the risks of their investments.

### **Item 9 Disciplinary Information**

As a registered investment adviser, we are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. There are no legal or disciplinary events relating to Heydorn|Stone Capital Management.

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

Heydorn|Stone Capital Management does not have any information to disclose under Item 10.

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

#### Code of Ethics

HSCM has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes a prohibition on insider trading, provisions requiring all of HSCM's supervised persons to comply with applicable federal securities laws, provisions requiring HSCM's supervised persons to report their personal securities transactions, and provisions requiring HSCM's supervised persons to promptly report any violations of its Code of Ethics. All supervised persons must also acknowledge the terms of the Code of Ethics annually and as amended. A copy of HSCM's Code of Ethics is available for review by clients and prospective clients upon request.

In meeting its fiduciary responsibilities to its clients, HSCM expects every representative to demonstrate the highest standards of ethical conduct for continued employment with

HSCM. The provisions of the Code are not all-inclusive. Rather, they are intended as a guide for representatives of HSCM in their conduct.

A copy of Heydorn|Stone Capital Managements Code of Ethics will be provided upon request to clients or prospective clients.

Personal Trading - HSCM and its representatives may buy or sell securities that are also held by clients. Representatives of HSCM are required to maintain their account and accounts over which they have investment authority at HSCM or to provide quarterly transaction reports. HSCM may review personal trading to ensure no violations of the code have occurred. However, the insignificantly small trades of HSCM representatives in mutual funds, individual bonds, or exchange-traded funds are not expected to affect the securities markets.

## **Item 12 Brokerage Practices**

The HSCM recommends that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co. to maintain custody of clients' assets and to process trades for their accounts. HSCM is independently owned and operated and not affiliated with Schwab. Schwab provides HSCM with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. Schwab's services include trade execution, custody, research, and access to mutual funds and other investments that are otherwise available only to institutional investors. This may include access to load funds with the loads waived, access to funds which may require a significantly higher minimum initial investment, or the ability to aggregate HSCM's holdings in certain funds to qualify for their minimum investment threshold. HSCM may use an alternate broker-dealer for client accounts. In that case HSCM may evaluate the reasonableness of commissions, other costs of trading, ability to facilitate trades, computer trading support and other operational considerations evaluate the use of alternate broker-dealers. HSCM does not share in any commissions from Charles Schwab or any other securities broker-dealer.

### Research and other benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian such as Charles Schwab, Heydorn|Stone Capital Management may receive from that broker-dealer/custodian, or have access to, investment research and other practice support materials. These items may be available to Heydorn|Stone Capital Management as a result of Heydorn|Stone Capital Management executing client securities transactions through that broker-dealer or Heydorn|Stone Capital Management's clients utilizing that company to provide custodial services. These items may be in the form of research reports and other securities analysis products, and various written publications on topics relates to Heydorn|Stone Capital Management's practice. Heydorn|Stone Capital Management anticipates that any such items will generally be used to service all of Heydorn|Stone Capital Management's clients.

The foregoing may be perceived to be a conflict of interest. When Heydorn|Stone Capital Management receives a benefit from a broker-dealer or custodian it does not have to produce or pay for that benefit. Heydorn|Stone Capital Management arguably would have an incentive to select or recommend a broker-dealer based on Heydorn|Stone Capital Management's interest in receiving the benefit(s), rather than on the client's interest in receiving most favorable execution. However, the firm feels that it has addressed this conflict because Heydorn|Stone Capital Management's clients do not pay more for investment transactions effected and/or assets maintained at a particular broker-dealer or custodian as result of Heydorn|Stone Capital Management's receipt of such benefit(s). In addition these benefits are provided universally by comparable broker-dealers or custodians. There is no corresponding commitment made by Heydorn|Stone Capital Management any other any entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities, or other investment products as result of Heydorn|Stone Capital Management receiving these benefits. Further, the benefits received are available to any investment manager executing securities transactions through the broker-dealer, regardless of the volume of execution.

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

The underlying securities in client accounts are continuously monitored. Overall client portfolios are reviewed periodically or if triggered by a material event, to ensure that they are in line with the client's investment objectives and guidelines. Changes to the holdings and asset allocation within client guidelines are made as appropriate.

A review of client accounts is conducted periodically with the client, or whenever client objectives or circumstances have changed. Clients are reminded quarterly to advise HSCM if their objectives or circumstances have changed.

Margaret S. Heydorn, Founding Partner and Alana M. Stone, Partner and Chief Compliance Officer review client accounts in accordance with the above procedures.

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

Heydorn|Stone Capital Management does not have any information to disclose under Item 14.

### **Item 15 Custody**

HSCM has entered into an agreement with Charles Schwab & Co., Inc. (Schwab) to provide custodial services to its clients. Charles Schwab & Co has physical custody of client assets. Schwab is authorized by the client to deduct and direct payment of HSCM's advisory fee directly from the client's custodial account. We may be deemed to have custody of client funds and securities where a client has a standing letter of authorization

(SLOA) authorizing us to initiate payment(s) to a third party and because we may deduct our advisory fee directly from client accounts. Each client should receive account statements directly from the broker on at least a quarterly basis. Each client should carefully review those statements. In addition to reports from the custodian, Heydorn|Stone Capital Management may provide a quarterly performance reporting package to clients for accounts with a market values of over \$500. The clients are urged to compare custodian statements with HSCM statements and rely solely upon the reports issued by the Schwab or other broker-dealer and/or custodians of the assets.

### **Item 16 Investment Discretion**

HSCM's investment management services may be provided on a discretionary basis. Where HSCM has discretionary management authority we will be authorized to determine the securities to be bought or sold for the client's account(s), the amount of securities to be brought or sold, and the broker or dealer to be used to execute client securities transactions.

Each client may request reasonable limitations be placed on HSCM's discretionary authority, such as securities or market sector based limitations.

HSCM's Investment Advisory Agreement and the agreement between the client and the custodian/broker-dealer such as Schwab for the account, may grant discretionary authority to HSCM. The client's written agreement with the custodian grants a limited power of attorney to HSCM to effect transactions in the client's custodial account.

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

HSCM does not vote proxies on behalf of its clients. Clients should receive proxy notifications or other solicitations directly from the custodian or transfer agent. The client is solely responsible for voting such proxies or directing how such proxies shall be voted. The client may contact HSCM with questions about a specific solicitation.

### **Item 18 Financial Information**

HSCM does not have any financial impairment that precludes the firm from meeting contractual commitments to clients.