

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



*Doing Business As:*

4 Element Advisors  
2300 Contra Costa Blvd., Suite 220  
Pleasant Hill, CA 94523  
(925) 685-2911

Firm Contact:  
Mark Shone, Chief Compliance Officer

Firm Website Address:  
[www.shoneassetmgmt.com](http://www.shoneassetmgmt.com)

This brochure provides information about the qualifications and business practices of Shone Asset Management dba 4 Element Advisors. If you have any questions about the contents of this brochure, please contact us by telephone at (925) 472-0874 or email [mshone@shoneassetmgmt.com](mailto:mshone@shoneassetmgmt.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 Shone Asset Management dba 4 Element Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching CRD# 136101.

Please note that the use of the term "registered investment adviser" and description of 4 Element Advisors 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

**4 Element Advisors** 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, the following changes have been made:

- The PPP Loan has been forgiven on January 14, 2021 and has been removed from Item 18.

### Item 3: Table of Contents

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## Item 4: Advisory Business

4 Element Advisors was formed in the State of California in May 2005 and is owned by Mark Shone, Manager and Chief Compliance Officer. The Firm provides investment advice and supervisory services to its Clients by advising on equities, options, debt instruments, governmental securities and/or mutual fund shares in or for its Clients accounts which will provide proper diversification and help meet the Client's stated investment objectives. 4 Element Advisors provides discretionary and non-discretionary investment supervisory services to its Clients. The specific investment style chosen per Client is based upon the goals, objectives, and individual needs of the Client.

4 Element Advisors manages Client assets on both a discretionary and non-discretionary basis. As of December 31, 2020, the Firm had \$356,363,108 total assets under management with \$346,863,583 managed on a discretionary basis and \$9,499,525 managed on a non-discretionary basis.

### **Mission Statement**

- ❖ Provide Clients with objective financial and investment advice and act as their financial advocate.
- ❖ Utilize an investment management process designed for wealth preservation and growth.
- ❖ Offer and communicate perspective and expertise on the financial marketplace.

### **Advisory Services for Individuals**

#### **I. Investment Account Management and Financial Planning**

Investment Account Management and Financial Planning is an *investment supervisory service*, provided to individuals. Individuals receive investment account management after financial planning or investment asset allocation planning has been completed and accepted. For all Clients, supervisory services involve assisting the Clients on a discretionary or non-discretionary basis in maintaining an investment portfolio structured and diversified to meet the account holder's needs and objectives. This service includes monitoring and adjusting portfolio allocations and researching the selection of investments.

#### **II. General Financial Planning and Consulting**

4 Element Advisors may assist its Clients in numerous activities it terms "general financial consulting." These include, but are not limited to, review of existing plans (second opinion service), comprehensive financial planning, retirement projections, insurance review, college funding, and estate planning strategies.

### **Advisory Services for Business and Non Profit Organizations**

Our firm provides retirement plan consulting services to employer plan sponsors on an ongoing basis. Generally, such consulting services consist of assisting employer plan sponsors in establishing, monitoring and reviewing their company's participant-directed retirement plan.

## **I. Investment Policy Statement Development**

This service includes several meetings with the organization to review five steps in the investment management process. A detailed investment policy is written after developing an asset allocation study and performing a structured money manager search process.

## **II. Investment Account Management and Financial Planning**

Investment Account Management and Financial Planning is an *investment supervisory service*, provided to organizations. Organizations receive investment account management after the development of an investment policy or when an investment asset allocation plan has been completed and accepted. For all Clients, supervisory services involve assisting the Clients on a discretionary or non-discretionary basis in maintaining an investment portfolio structured and diversified to meet the account holder's needs and objectives. This service includes monitoring and adjusting portfolio allocations and researching the selection of investments.

In providing services for retirement plans, our firm does not provide any advisory services with respect to the following types of assets: employer securities, real estate (excluding real estate funds and publicly traded REITS), participant loans, non-publicly traded securities or assets, other illiquid investments, or brokerage window programs (collectively, "Excluded Assets"). All Investment Account Management and Financial Planning services shall be in compliance with the applicable state laws regulating retirement consulting services. This applies to client accounts that are retirement or other employee benefit plans ("Plan") governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). If the client accounts are part of a Plan, and our firm accepts appointment to provide services to such accounts, our firm acknowledges its fiduciary standard within the meaning of Section 3(21) or 3(38) of ERISA as designated by the Retirement Plan Consulting Agreement with respect to the provision of services described therein.

## **III. General Financial Planning and Consulting**

4 Element Advisors may assist its Clients in numerous activities it terms "general financial consulting." These include, but are not limited to, review of existing plans (second opinion service), Investment Policy Statements, and retirement plan design.

### **Item 5: Fees & Compensation**

#### **Advisory Fees**

Client pays 4 Element Advisors for its investment management services based upon either the Client's assets under management or a fixed or hourly fee. Fees to be assessed will be outlined in the advisory agreement to be signed by the Client.

#### **Advisory Services for Individuals**

### **I. Investment Account Management and Financial Planning**

*Option 1: Fee Based Upon Assets Under Management*

### **Maximum Fee Schedule for Managed Accounts**

First \$1,000,000	1.00 %
Next \$1,000,000 - \$2,000,000	0.75 %
Next \$2,000,000 - \$5,000,000	0.60 %
Next \$5,000,000 - \$7,500,000	0.40 %
Greater than \$7,500,000	0.30 %

\*Minimum annual fee of \$5,000 per year, payable quarterly.

The Client pays 4 Element Advisors for its investment management services based upon the Client's assets under management. The advisory fees payable to 4 Element Advisors are based on the above fee schedule. Advisory fees are negotiable. Fees are calculated by multiplying the assets under management by the relevant percentage and dividing such product by four. Accounts opened in mid-quarter will be assessed at a pro-rated management fee. Fees are payable quarterly in arrears and such fees may be deducted from Client's account(s) quarterly within 30 days following the end of the quarter for which said fees will be incurred. As part of this process, you understand and acknowledge the following:

- a) Your independent custodian sends statements at least quarterly to you showing the market values for each security included in the Assets and all disbursements in your account including the amount of the advisory fees paid to us;
- b) You provide authorization permitting us to be directly paid by these terms. We send our invoice directly to the custodian; and
- c) If we send a copy of our invoice to you, it will include a legend urging you to compare information provided in our statement with those from the qualified custodian.

#### *Option 2: Fixed Fee*

The Client pays 4 Element Advisors a fixed fee for its investment management services. We charge a flat quarterly fee generally ranging between \$1,000 and \$25,000. The fee charged is based on the scope and complexity of our engagement with the Client. Advisory fees are negotiable. Accounts opened in mid-quarter will be assessed at a pro-rated management fee. Fees are payable quarterly in advance and such fees may be deducted from Client's account(s) quarterly within 30 days following the end of the quarter for which said fees will be incurred. As part of this process, you understand and acknowledge the following:

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- c) If we send a copy of our invoice to you, it will include a legend urging you to compare information provided in our statement with those from the qualified custodian.

## **II. General Financial Planning and Consulting**

4 Element Advisors may charge an hourly fee (maximum of \$300 per hour) or a fixed fee (from \$200 to \$10,000) based on the nature of the Client, the level of service requested and other specific facts. The fee charged to Client may be more or less than other fee payment options. A

separate Financial Consulting Agreement is executed with each Client using this service. The fee is due upon completion of the services. All fees are negotiable and confirmed in writing by Agreement.

### **Advisory Services for Business and Non Profit Organizations**

#### **I. Investment Policy Statement Development**

The fee for developing an investment policy is determined using a rate of \$300 per hour with a 10-hour minimum. The fee range for this service is \$2,100 to \$3,000.

#### **II. Investment Account Management and Financial Planning**

##### *Option 1: Fee Based Upon Assets Under Management*

##### **Maximum Fee Schedule for Managed Accounts**

First \$1,000,000	1.00 %
Next \$1,000,000 - \$2,000,000	0.75 %
Next \$2,000,000 - \$5,000,000	0.60 %
Next \$5,000,000 - \$7,500,000	0.40 %
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- a) Your independent custodian sends statements at least quarterly to you showing the market values for each security included in the Assets and all disbursements in your account including the amount of the advisory fees paid to us;
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### **III. General Financial Planning and Consulting**

4 Element Advisors may charge an hourly fee (maximum of \$300 per hour) or a fixed fee (from \$300 to \$10,000) based on the nature of the Client, the level of service requested and other specific facts. The fee charged to Client may be more or less than other fee payment options. A separate Financial Consulting Agreement is executed with each Client using this service. The fee is due upon completion of the services. All fees are negotiable and confirmed in writing by Agreement.

#### **Fees in General**

Fees are calculated on an incremental basis and are subject to change with (thirty) 30 days written notice. Notwithstanding the above, certain Clients of 4 Element Advisors with pre-existing relationships may initially be charged fees which are less than those set out above.

4 Element Advisors maintains a Power of Attorney for all discretionary accounts for the purposes of directing and/or otherwise effecting investments on behalf of the managed account. Further, the Power of Attorney extends on all discretionary and non-discretionary accounts for the direct payment of 4 Element Advisors' fees and/or the payment of any commissions, custodial fees and/or other charges incurred by the account(s).

#### **Additional Fees and Expenses**

To the extent mutual funds are selected by 4 Element Advisors to fill components of the overall investment strategy, the annual advisory fee does not include the customary fees and expenses associated with investing in mutual funds or other costs of establishing and maintaining an account with mutual funds including Rule 12b-1 fees and expenses. Client is advised that, in addition to the annual advisory fee, some mutual funds in which assets are invested may incur separate other related expenses. TD Ameritrade, Inc. ("TD Ameritrade"), do not charge transaction fees for U.S. listed equities and exchange traded funds. Fidelity Brokerage Services ("Fidelity") eliminated transaction fees for U.S. listed equities and exchange traded funds for clients who opt into electronic delivery of statements or maintain at least \$1 million in assets at Fidelity. Clients who do not meet either criteria will be subject to transaction fees charged by Fidelity for U.S. listed equities and exchange traded funds.

#### **Termination of the Advisory Relationship**

The relationship between the parties may be terminated by either party upon thirty (30) days written notice. Notwithstanding the above, if the appropriate disclosure statement was not delivered to the



Client at least 48 hours prior to the Client entering into any written or oral advisory contract with this investment adviser, then the Client has the right to terminate the contract, without a penalty, within five (5) business days after entering into the contract.

Either party may terminate the advisory agreement signed with our firm for our Investment Account Management and Financial Planning and Investment Policy Statement Development services in writing at any time. Clients who were billed in advance will receive a pro-rata refund of the unearned portion of the advisory fees charged at the beginning of the quarter. Clients who were billed in arrears will be charged a pro-rata advisory fee for services rendered to the point of termination. If advisory fees cannot be deducted, our firm will send an invoice for due advisory fees to the client.

Financial Planning & Consulting Clients may terminate their agreement without penalty within five (5) business days of signing the Agreement. Client will be entitled to a refund of any prepaid planning fees less a charge for any time spent on preparing or reviewing the plan up to the point of termination. After the five (5) business day period, hourly Clients will owe for any time spent on preparing the plan up to the point of termination based on the hourly rate agreed upon in the Financial Planning Agreement.

#### **Item 6: Performance-Based Fees & Side-By-Side Management**

4 Element Advisors does not charge any performance-based fees based on a share of capital gains or capital appreciation of the assets of a Client.

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

4 Element Advisors provides investment advisory services to individuals, high net worth individuals, trusts, estates or charitable organizations, corporate pension and profit-sharing plans, and corporations, limited liability companies and/or other business types.

The Firm requires a minimum account balance of \$500,000 for its Investment Account Management and Financial Planning service.

Clients who opt into electronic delivery of statements or maintain at least \$1 million in assets at Fidelity will not be charged transaction fees for U.S. listed equities and exchange traded funds.

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

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

We analyze a client's goals, objectives and risk profile, to develop a portfolio using a strategic asset allocation process which employs the Modern Portfolio Theory approach. Portfolios are implemented with products that keep in mind both expenses and tax efficiency (when used in a taxable account). Portfolios are considered for rebalancing when securities move outside of bands set in the investment policy statement for each client. Exchange traded funds, mutual funds and individual bonds are the primary investment vehicles used in client portfolios. Modern Portfolio Theory, exchange traded funds, and mutual funds are further described in this section.

**Modern Portfolio Theory ("MPT"):** A mathematical framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk, defined as variance. Its key insight

is that an asset's risk and return should not be assessed by itself, but by how it contributes to a portfolio's overall risk and return. MPT assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists that has better expected returns.

The risk, return, and correlation measures used by MPT are based on expected values, which means that they are mathematical statements about the future (the expected value of returns is explicit in the above equations, and implicit in the definitions of variance and covariance). In practice, investors must substitute predictions based on historical measurements of asset return and volatility for these values in the equations. Very often such expected values fail to take account of new circumstances that did not exist when the historical data were generated. Mathematical risk measurements are also useful only to the degree that they reflect investors' true concerns—there is no point minimizing a variable that nobody cares about in practice. MPT uses the mathematical concept of variance to quantify risk, and this might be justified under the assumption of elliptically distributed returns such as normally distributed returns, but for general return distributions other risk measures (like coherent risk measures) might better reflect investors' true preferences.

### **Investment Strategies We Use**

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We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

**Exchange Traded Funds (“ETFs”):** An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) whose primary objective is to achieve the same return as a particular market index. The vast majority of ETFs are designed to track an index, so their performance is close to that of an index mutual fund, but they are not exact duplicates. A tracking error, or the difference between the returns of a fund and the returns of the index, can arise due to differences in composition, management fees, expenses, and handling of dividends. ETFs benefit from continuous pricing; they can be bought and sold on a stock exchange throughout the trading day. Because ETFs trade like stocks, you can place orders just like with individual stocks - such as limit orders, good-until-canceled orders, stop loss orders etc. They can also be sold short. Traditional mutual funds are bought and redeemed based on their net asset values (“NAV”) at the end of the day. ETFs are bought and sold at the market prices on the exchanges, which resemble the underlying NAV but are independent of it. However, arbitrageurs will ensure that ETF prices are kept very close to the NAV of the underlying securities. Although an investor can buy as few as one share of an ETF, most buy in board lots. Anything bought in less than a board lot will increase the cost to the investor. Anyone can buy any ETF no matter where in the world it trades. This provides a benefit over mutual funds, which generally can only be bought in the country in which they are registered.

One of the main features of ETFs are their low annual fees, especially when compared to traditional mutual funds. The passive nature of index investing, reduced marketing, and distribution and accounting expenses all contribute to the lower fees. However, individual investors must pay a brokerage commission to purchase and sell ETF shares; for those investors who trade frequently,

this can significantly increase the cost of investing in ETFs. That said, with the advent of low-cost brokerage fees, small or frequent purchases of ETFs are becoming more cost efficient.

**Margin Transactions:** Our firm may purchase stocks, mutual funds, and/or other securities for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings. Margin accounts and transactions are risky and not necessarily appropriate for every client. The potential risks associated with these transactions are (1) You can lose more funds than are deposited into the margin account; (2) the forced sale of securities or other assets in your account; (3) the sale of securities or other assets without contacting you; and (4) you may not be entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.

**Mutual Funds:** A mutual fund is a company that pools money from many investors and invests that money in a variety of differing security types based on the objectives of the fund. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares are the fund's per share net asset value ("NAV") plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads). Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades. With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which is calculated daily after market close.

The benefits of investing through mutual funds include: (a) Mutual funds are professionally managed by an investment adviser who researches, selects, and monitors the performance of the securities purchased by the fund; (b) Mutual funds typically have the benefit of diversification, which is an investing strategy that generally sums up as "Don't put all your eggs in one basket." Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.; (c) Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.; and (d) At any time, mutual fund investors can readily redeem their shares at the current NAV, less any fees and charges assessed on redemption.

Mutual funds also have features that some investors might view as disadvantages: (a) Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distributions they receive. This includes instances where the fund performed poorly after purchasing shares.; (b) Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.; and (c) With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until

many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds, however, are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit, and cannot use losses to offset these gains.

## **Risk of Loss**

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

**Capital Risk:** Capital risk is one of the most basic, fundamental risks of investing; it is the risk that you may lose 100% of your money. All investments carry some form of risk and the loss of capital is generally a risk for any investment instrument.

**ETF & Mutual Fund Risk:** When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities, the ETF, or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.

**Market Risk:** The value of your portfolio may decrease if the value of an individual company or multiple companies in the portfolio decreases or if our belief about a company's intrinsic worth is incorrect. Further, regardless of how well individual companies perform, the value of your portfolio could also decrease if there are deteriorating economic or market conditions. It is important to understand that the value of your investment may fall, sometimes sharply, in response to changes in the market, and you could lose money. Investment risks include price risk as may be observed by a drop in a security's price due to company specific events (e.g. earnings disappointment or downgrade in the rating of a bond) or general market risk (e.g. such as a "bear" market when stock values fall in general). For fixed-income securities, a period of rising interest rates could erode the value of a bond since bond values generally fall as bond yields go up. Past performance is not a guarantee of future returns.

**Strategy Risk:** There is no guarantee that the investment strategies discussed herein will work under all market conditions and each investor should evaluate his/her ability to maintain any investment he/she is considering in light of his/her own investment time horizon. Investments are subject to risk, including possible loss of principal.

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

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to Clients' evaluations of 4 Element Advisors or the integrity of the Firm's management. 4 Element Advisors and its management have no information to disclose for this Item.

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

The Firm does not perform any other financial industry activities other than investment advisory services. However, representatives of our firm are Certified Public Accountants and Enrolled Agents. In such capacity, they may also provide income tax preparation or accounting services.

These aforementioned services are independent of our financial planning and investment advisory services and are governed under separate engagement agreements. The client has the option of engaging these individuals for tax preparation or accounting services but is under no obligation to utilize these services. Clients will not be actively solicited to utilize these services.

Mr. Shone is also an investment advisor representative of Angeles Investment Advisors, LLC (CRD# 110213). In such capacity, he offers advisory services and receives normal and customary fees, which are fully disclosed in Angeles Investment Advisors, LLC's Form ADV, which is available by searching the CRD# through the Investment Advisor Public Disclosure website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and upon request. Mr. Shone will only offer financial planning services to clients solicited by Angeles Investment Advisors, LLC.

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

No security may be bought or sold by a principal or employee of 4 Element Advisors before Firm's Clients' accounts have had the opportunity to make such transactions as appropriate. All 4 Element Advisors principal and employee trades will be reviewed by the compliance officer. Principals and employees will not receive a more favorable execution price on a particular day than those received by 4 Element Advisors' investment advisory Clients.

To prevent conflicts of interest, all employees of 4 Element Advisors must comply with the Firm's Written Supervisory Procedures and Code of Ethics, which impose restrictions on the purchase or sale of securities for their own accounts and the accounts of certain affiliated persons. Purchase and sale of specific securities by employees of 4 Element Advisors are prohibited when there are Client programs active in those securities. Executions for Clients will always receive priority. The officers and employees of 4 Element Advisors report transactions monthly.

The Supervisory Procedures and Code of Ethics require that all trades made by employees or related persons of 4 Element Advisors, who make recommendations or participate in the determination of which recommendation shall be made, will require approval for all securities trades (except transactions in investment company securities and/or other exempt transactions) and will be reviewed by the designated person responsible. 4 Element Advisors will also maintain quarterly reports on all personal securities transactions, except transactions in investment company securities and/or other exempt transactions. Further, such Supervisory Procedures and Code of Ethics impose

certain policies and procedures concerning the misuse of material non-public information that are designed to prevent insider trading by any officer, partner, or associated person of 4 Element Advisors.

## **Item 12: Brokerage Practices**

### **Selecting a Brokerage Firm**

Our firm does not maintain custody of client assets. Client assets must be maintained by a qualified custodian. Our firm seeks to recommend a custodian who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. The factors considered, among others, are these:

- Timeliness of execution
- Timeliness and accuracy of trade confirmations
- Research services provided
- Ability to provide investment ideas
- Execution facilitation services provided
- Record keeping services provided
- Custody services provided
- Frequency and correction of trading errors
- Ability to access a variety of market venues
- Expertise as it relates to specific securities
- Financial condition
- Business reputation
- Quality of services

With this in consideration, our firm has an arrangement with Fidelity Institutional Wealth Services through Fidelity Brokerage Services LLC, ("FBS") and the TD Ameritrade Institutional division of TD Ameritrade, Inc. ("TDA"). FBS and TDA (collectively hereinafter referred to as our "Custodians") are qualified custodians from whom our firm is independently owned and operated. Our custodians offer services to independent investment advisers which includes custody of securities, trade execution, clearance and settlement of transactions. Our Custodians enable us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Our Custodian does not charge client accounts separately for custodial services. Client accounts will be charged transaction fees, commissions or other fees on trades that are executed or settle into the client's custodial account. Transaction fees are negotiated with our Custodians and are generally discounted from customary retail commission rates. This benefits clients because the overall fee paid is often lower than would be otherwise.

Our Custodians may make certain research and brokerage services available at no additional cost to our firm. Research products and services provided by Our Custodians 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 our Custodians to our firm in the performance of our investment decision-making responsibilities. The aforementioned research and brokerage services qualify for the safe harbor exemption defined in Section 28(e) of the Securities Exchange Act of 1934.

Our Custodians do not make client brokerage commissions generated by client transactions available for our firm's use. The aforementioned research and brokerage services are used by our firm to manage accounts for which our firm has investment discretion. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

As part of our fiduciary duty to our clients, our firm will endeavor at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by our firm or our related persons creates a potential conflict of interest and may indirectly influence our firm's choice of our Custodians as a custodial recommendation. Our firm examined this potential conflict of interest when our firm chose to recommend our Custodians and have determined that the recommendation is in the best interest of our firm's clients and satisfies our fiduciary obligations, including our duty to seek best execution.

Our clients may pay a transaction fee or commission to our Custodians that is higher than another qualified broker dealer might charge to effect the same transaction where our firm determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided to the client as a whole.

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. Although our firm will seek competitive rates, to the benefit of all clients, our firm may not necessarily obtain the lowest possible commission rates for specific client account transactions.

#### **Soft Dollars**

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Our firm does not receive soft dollars in excess of what is allowed by Section 28(e) of the Securities Exchange Act of 1934. The safe harbor research products and services obtained by our firm will generally be used to service all of our clients but not necessarily all at any one particular time.

#### **Client Brokerage Commissions**

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Our Custodians do not make client brokerage commissions generated by client transactions available for our firm's use.

#### **Client Transactions in Return for Soft Dollars**

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Our firm does not direct client transactions to a particular broker-dealer in return for soft dollar benefits.

#### **Brokerage for Client Referrals**

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Our firm does not receive brokerage for client referrals.

#### **Directed Brokerage**

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Neither our firm nor any of our firm's representatives have discretionary authority in making the determination of the brokers-dealers and/or custodians 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. Our firm routinely recommends that clients direct us to execute through a specified broker-dealer. Our firm recommends the use of our Custodians. Each client will be required to establish their account(s) with our Custodians if not already done. Please note that not all advisers have this requirement.

### **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, our firm 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.

### **Client-Directed Brokerage**

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Our firm allows clients to direct brokerage outside our recommendation. Our firm may be unable to achieve the most favorable execution of client transactions. Client directed brokerage may cost clients more money. For example, in a directed brokerage account, clients may pay higher brokerage commissions because our firm may not be able to aggregate orders to reduce transaction costs, or clients may receive less favorable prices.

### **Aggregation of Purchase or Sale**

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Our firm provides 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 our firm believes 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, our firm attempts 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**

All accounts under supervision are reviewed monthly by the applicant. Investments that are held in accounts of Clients are monitored weekly and could cause a review of a Client account, given a significant change and affect on an account. A dramatic change in the market environment would trigger a review of the accounts and holdings for all Clients. Client reviews are performed to check the progress of accounts and attainment of the stated Client goals. These reviews are agreed upon by the Client and Adviser. The frequency can be from monthly to annually.

Clients will receive performance reports on their accounts and holdings on a predetermined basis which may be monthly, but normally quarterly. Performance reports benchmark the investments in the account to determine the actual performance vs. the stated objective of the account. Clients also



receive general market commentary via periodic newsletters. The Clients also receive brokerage transaction confirmations and monthly statements from the custodian of the account.

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

Our firm does 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 Rule 206(4)-3 of the Investment Advisers Act of 1940.

#### **Item 15: Custody**

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains Clients' investment assets. 4 Element Advisors urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### **Third Party Money Movement:**

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**

4 Element Advisors manages client accounts on a discretionary or non-discretionary basis, pursuant to an executed investment advisory client agreement. By granting investment discretion, we are authorized to execute securities transactions, which securities are bought and sold, the total amount to be bought and sold, and the costs at which the transactions will be effected. 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.

4 Element Advisors will allocate brokerage transactions in a manner it believes to be fair and responsible to its Clients, and consistent with Client objectives. Adhering to a strict formula will not be practicable given the variation in Client objectives and guidelines.

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

4 Element Advisors shall not accept proxy authority with respect to the voting of proxies solicited by, or with respect to, the issuers of any securities held in the Accounts. In the event that proxies are sent to our firm, we will forward them 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**

4 Element Advisors is required in this Item to provide its Clients with certain financial information or disclosures about 4 Element Advisors' financial condition. The Firm does not require the prepayment of more than \$1,200 in fees and six or more months in advance. The Firm does not take custody of client funds or securities and has not been the subject of a bankruptcy proceeding.