

# S.F. EHRLICH ASSOCIATES, INC.

SEC File # 801-113687

ADV Part 2A, Brochure

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This Brochure provides information about the qualifications and business practices of S.F. Ehrlich Associates, Inc. (“SFE”). If you have any questions about the contents of this Brochure, please contact us at 908-789-1100 or [jzeltmann@sfehrlich.com](mailto:jzeltmann@sfehrlich.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about S.F. Ehrlich Associates, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

References to S.F. Ehrlich Associates, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

## **Item 2           Material Changes**

There have been no material changes to this Form ADV Part 2A, Brochure since the March 11, 2021 annual update filing.

## **Item 3           Table of Contents**

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

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

- A. S.F. Ehrlich Associates, Inc. (“SFE”) is a New Jersey corporation formed in July 1996. SFE was initially registered as an investment adviser with the SEC, was then registered with various state agencies, and most recently transitioned back to SEC registration effective July 26, 2018. SFE is principally owned by Stanley Ehrlich who is SFE’s President.
- B. SFE offers to provide investment advisory, financial planning, and consulting services to its clients, who generally include individuals, high net worth individuals, and their affiliated trusts and estates.

#### **INVESTMENT ADVISORY SERVICES**

Clients can engage SFE to provide discretionary investment advisory services on a *fee-only* basis. When engaging SFE to provide investment advisory services, clients are required to enter into an Investment Advisory Agreement with SFE setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the fee that is due from the client. SFE’s annual investment advisory fee is based upon a percentage of the market value of the assets placed under its management. Upon request or as an ancillary part of the investment advisory process, SFE may at its discretion provide financial planning and consulting services without additional charge. If, however, SFE determines that the client seeks or requires financial planning or consulting services that exceed the anticipated scope under the Investment Advisory Agreement, it will offer to provide those services under the terms and conditions of a separate agreement.

SFE’s investment advisory services are specifically tailored to the needs of each client. Before providing investment advisory services, an investment adviser representative will collaborate with the client to develop investment objectives, which are based upon an assessment of factors that typically include capital preservation, risk tolerance, income production, liquidity requirements, client preferences, asset and liability levels, and investment preferences and restrictions. After developing the client’s investment objectives, SFE will execute on its customized investment strategy. Clients may, at any time impose restrictions in writing on investing in certain securities or types of securities. Generally, SFE allocates client investment assets among exchange-listed securities, mutual funds, exchange traded funds (“ETFs”), individual bonds and bond funds, cash, and cash equivalents on a discretionary basis. Once allocated, SFE provides ongoing monitoring and review of account performance and asset allocation as compared to client investment objectives and may periodically execute account transactions based upon those reviews or other triggering events.

#### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

Upon client request, SFE may agree to provide financial planning and consulting services (including investment and non-investment related matters) on a stand-alone separate fee basis. SFE’s financial planning and consulting fees are negotiable depending upon the level and scope of the services required and the professionals providing the services. Before engaging SFE to provide financial planning or consulting services, clients are required to enter into either a Financial Planning and Consulting Agreement, or a Limited Consulting Agreement with SFE setting forth the terms and conditions of the

engagement (including termination), describing the scope of the services to be provided, and a description of the applicable fee that will become due from the client before SFE will begin the process.

## **MISCELLANEOUS**

Limitations of Financial Planning and Non-Investment Consulting/Implementation Services. SFE may provide financial planning and related consulting services either as part of the investment advisory engagement or according to the terms and conditions of a stand-alone Financial Planning and Consulting Agreement. SFE does not serve as a law firm, accounting firm, or insurance agency, and no portion of SFE's services should be construed as legal, accounting, or insurance implementation services. Accordingly, SFE does not prepare estate planning documents, tax returns, or sell insurance products. Unless specifically agreed in writing, neither SFE nor its representatives are responsible to implement any financial plans or financial planning advice; provide ongoing financial planning services; or provide ongoing monitoring of financial plans or financial planning advice. The client is solely responsible to revisit the financial plan or financial planning advice with SFE, if desired. The client retains absolute discretion over all financial planning and related implementation decisions and is free to accept or reject any recommendation from SFE and its representatives in that respect. SFE's financial planning and consulting services are completed upon communicating its recommendations to the client, upon delivery of the written financial plan, or upon termination of the applicable agreement. To the extent requested by a client, SFE may recommend the services of other professionals for certain non-investment implementation purposes (i.e., attorneys, accountants, insurance agents, etc.). Clients are under no obligation to engage the services of any recommended professional, who are responsible for the quality and competency of the services they provide.

Dimensional Fund Advisors. SFE may allocate client investment assets to mutual funds issued by Dimensional Fund Advisors ("DFA"), which are generally only available through selected registered investment advisers. Therefore, upon the termination of SFE's services, a client may experience restrictions on the transfer, additional purchases, or reallocation among DFA funds.

Portfolio Trading Activity / Inactivity. As part of its investment advisory services, SFE will review client portfolios on an ongoing basis to determine if any trades are necessary based upon various factors, including but not limited to investment performance, market conditions, fund manager tenure, style drift, account additions/withdrawals, the client's financial circumstances, and changes in the client's investment objectives. Based upon these and other factors, there may be extended periods when SFE determines that upon review, trades within a client's portfolio are not prudent. Clients nonetheless remain subject to the fees described in Item 5 during periods of portfolio trading inactivity.

Retirement Plan Rollovers – No Obligation / Potential for Conflict of Interest. A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If SFE recommends that a client roll over their retirement plan assets into an account to be managed by SFE, such a

recommendation creates a conflict of interest if SFE will earn a new (or increase its current) advisory fee as a result of the rollover. No client is under any obligation to roll over retirement plan assets to an account managed by SFE.

ERISA / IRC Fiduciary Acknowledgment. When SFE provides investment advice to a client about the client's retirement plan account or individual retirement account, it does so as a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act ("ERISA") and/or the Internal Revenue Code ("IRC"), as applicable, which are laws governing retirement accounts. Because the way SFE makes money creates certain conflicts with client interests, SFE operates under a special rule that requires it to act in the client's best interest and not put its interests ahead of the client's. Under this special rule's provisions, SFE must: meet a professional standard of care when making investment recommendations (give prudent advice); never put its financial interests ahead of the client's when making recommendations (give loyal advice); avoid misleading statements about conflicts of interest, fees, and investments; follow policies and procedures designed to ensure that SFE gives advice that is in the client's best interest; charge no more than is reasonable for SFE's services; and give the client basic information about conflicts of interest.

Asset Aggregation / Reporting Services. SFE may provide access to reporting services through one or more third-party aggregation / reporting platforms that can reflect all of the client's investment assets, including those investment assets that the client has not engaged SFE to manage (the "Excluded Assets"). SFE's service for the Excluded Assets is strictly limited to reporting, and specifically excludes investment management or implementation. Because SFE does not have trading authority for the Excluded Assets, the client (and/or a designated investment professional), and not SFE, will be exclusively responsible for directly implementing any recommendations for the Excluded Assets and the resulting performance or related activity (such as timing and trade errors) pertaining to the Excluded Assets. The third-party aggregation / reporting platforms may also provide access to financial planning information and applications, which should not be construed as services, advice, or recommendations provided by SFE. Accordingly, SFE will not agree to be responsible for any adverse results a client may experience if the client engages in financial planning or other functions available on the third party reporting platforms without SFE's participation or oversight.

Client Obligations. When performing its services, SFE is not required to verify any information received from the client or from the client's designated professionals and is expressly authorized to rely on that information. Clients are responsible to promptly notify SFE if there is ever any change in their financial situation or investment objectives for the purpose of reviewing or amending SFE's services or previous recommendations.

Cybersecurity Risk. The information technology systems and networks that SFE and its third-party service providers use to provide services to SFE's clients employ various controls, which are designed to prevent cybersecurity incidents stemming from intentional or unintentional actions that could cause significant interruptions in SFE's operations and result in the unauthorized acquisition or use of clients' confidential or non-public personal information. Clients and SFE are nonetheless subject to the risk of cybersecurity incidents that could ultimately cause them to incur losses, including for example: financial losses, cost, and reputational damage to respond to regulatory obligations, other costs associated with corrective measures, and loss from damage or interruption to systems. Although SFE has established its systems to reduce the risk of

cybersecurity incidents from coming to fruition, there is no guarantee that these efforts will always be successful, especially considering that SFE does not directly control the cybersecurity measures and policies employed by third-party service providers. Clients could incur similar adverse consequences resulting from cybersecurity incidents that more directly affect issuers of securities in which those clients invest, broker-dealers, qualified custodians, governmental and other regulatory authorities, exchange and other financial market operators, or other financial institutions.

- C. SFE tailors its investment advisory tailored specifically to the needs of each client. To begin the investment advisory process, an investment adviser representative will coordinate with each client to develop their investment objectives. Then, SFE allocates or recommends that the client allocate investment assets consistent with the designated investment objectives. The client may, at any time, impose reasonable restrictions, in writing, on SFE's services.
- D. SFE does not participate in a wrap fee program.
- E. As of December 31, 2021, SFE had \$153,214,338 in client assets under management on a discretionary basis.

## **Item 5 Fees and Compensation**

- A. Clients can engage SFE to provide discretionary investment advisory services on a *fee-only* basis as described below.

### **INVESTMENT ADVISORY SERVICES**

SFE's annual investment advisory fee is based upon a tiered percentage (%) of the market value of the assets placed under SFE's management (generally, between 0.75% and 1.0%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Up to \$1,000,000	1.00%
Balance exceeding \$1,000,000	0.75%

SFE generally requires an annual minimum fee of \$5,000 and a minimum asset level of \$500,000 for investment advisory services. Clients who maintain assets with SFE below the minimum account size may pay a higher percentage rate than reflected above. Unless SFE expressly agrees otherwise in writing, account assets consisting of cash and cash equivalent positions are included in the value of an account's assets for purposes of calculating SFE's advisory fee. Clients can advise SFE not to maintain (or to limit the amount of) cash or cash equivalent positions in their account.

In limited circumstances, SFE's investment advisory fee is negotiable at SFE's discretion, depending upon objective and subjective factors including but not limited to the amount of assets to be managed; portfolio composition; the scope and complexity of the engagement; the anticipated number of meetings and servicing needs; related accounts; future earning capacity; anticipated future additional assets; the professionals rendering the services; prior relationships with SFE and its representatives, and negotiations with the client. Certain legacy clients may have accepted different pre-existing service offerings from SFE and may therefore receive services under different

fee schedules than as set forth above. As a result, similarly situated clients could pay different fees, the services to be provided by SFE to any particular client could be available from other advisers at lower fees, and certain clients may have fees different than those specifically set forth above.

**FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

SFE's financial planning and consulting fees are negotiable depending upon the level and scope of the services required and the professionals providing the services, but generally range from \$1,500.00 to \$5,000.00 on a fixed fee basis according to the terms and conditions of a Financial Planning and Consulting Agreement; or between \$500 and \$600 on a fixed fee basis according to the terms and conditions of a Limited Consulting Agreement.

- B. Clients may elect to have SFE's advisory fees deducted from their custodial account. Both SFE's Investment Advisory Agreement and the custodial / clearing agreement may authorize the custodian to debit the account for the amount of SFE's investment advisory fee and to directly remit that investment advisory fee to SFE in compliance with regulatory procedures. In the limited event that SFE bills the client directly, payment is due upon receipt of SFE's invoice. For investment advisory services, SFE deducts fees or bills clients quarterly in arrears based upon the market value of the assets on the last business day of the previous quarter. Financial planning and consulting fees are payable according to the terms and conditions of the applicable form of agreement, typically upon completion of the engagement.
- C. Unless the client directs otherwise or an individual client's circumstances require, SFE generally recommends that Charles Schwab and Co., Inc., and its affiliates ("Schwab") serve as the broker-dealer/custodian for client investment advisory assets. Broker-dealers charge transaction fees for executing certain securities transactions according to their fee schedule, and they or their affiliated custodians also impose charges for custodial services/fees associated with maintaining the client's account. For mutual fund and ETF purchases, clients will incur charges imposed by the respective fund, which represent the client's pro rata share of the fund's management fee and other fund expenses. These fees and expenses are described in each fund's prospectus or other offering documents. The fees charged by the applicable broker-dealer/custodian, and the charges imposed by mutual funds and ETFs, are separate from and in addition to SFE's advisory fee referenced in this Item 5. SFE does not share in any portion of those fees or expenses.
- D. SFE's annual investment advisory fee is prorated and paid quarterly, in arrears based upon the market value of the assets on the last business day of the previous quarter. The applicable form of agreement between SFE and the client will continue in effect until terminated by either party by written notice in accordance with the terms of such agreement. Upon termination, SFE will prorate and bill the client for the number of days that services were provided during the billing quarter or refund any unearned fees, as applicable.
- E. Neither SFE, nor its representatives accept compensation from the sale of securities or other investment products.

## **Item 6            Performance-Based Fees and Side-by-Side Management**

Neither SFE nor any supervised person of SFE accepts performance-based fees.

## **Item 7            Types of Clients**

SFE's clients generally include individuals, high net worth individuals, and their affiliated trusts and estates. SFE generally requires an annual minimum fee of \$5,000 and a minimum asset level of \$500,000 for investment advisory services. SFE, in its sole discretion, may charge a lesser investment advisory fee, reduce, or waive its minimum fee, and/or reduce or waive its minimum asset requirement based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Clients who maintain assets with SFE below the minimum account size may pay a higher percentage rate than reflected in Item 5.A. above.

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

A. SFE may utilize the following methods of security analysis:

- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices);
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts);
- Technical - (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices); and
- Cyclical - (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

SFE executes investment strategies for each client based upon the client's individual and confirmed investment objectives. SFE's primary investment strategy is a strategic asset allocation utilizing a core and satellite approach. This means that SFE focuses upon passively-managed mutual funds and exchange-traded funds as the core investments, and then adds actively-managed funds where it perceives opportunities for improvement. Portfolios are globally diversified in an attempt to control the risk associated with traditional markets. Other strategies may include long-term purchases (securities held at least a year), short-term purchases (securities sold within a year), and periodic rebalancing to align asset allocation to designated investment objectives.

Investment Risk in General. Investing in securities involves risk of loss that clients should be prepared to bear, including the loss of principal investment. Past performance does not guarantee future results. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by SFE) will be profitable or equal any specific performance level. Investment strategies such as asset allocation, diversification, or rebalancing do not assure or guarantee better performance and cannot eliminate the risk of investment losses. There is no guarantee that a portfolio employing these or any other strategy will



outperform a portfolio that does not engage in such strategies. While asset values may increase and client account values could benefit as a result, it is also possible that asset values may decrease, and client account values could suffer a loss.

- B. SFE's methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks. To perform an accurate market analysis SFE must have access to current/new market information. SFE has no control over the dissemination rate of market information; therefore, unbeknownst to SFE, certain analyses may be compiled with outdated market information, severely limiting the value of SFE's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

SFE's primary investment strategies are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

- C. Currently, SFE generally allocates client investment assets among exchange-listed securities, mutual funds, ETFs, individual bonds and bond funds, cash, and cash equivalents on a discretionary basis in accordance with the client's investment objectives. Each type of investment has its own unique set of risks associated with it. The following provides a short description of some of the underlying risks associated with the types of investments that SFE uses or recommends:

Market Risk. The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk may be caused by external factors (such as economic or political factors) but may also be incurred because of a security's specific underlying investments. Additionally, each security's price can fluctuate based on market movement, which may or may not be due to the security's operations or changes in its true value. For example, political, economic, and social conditions may trigger market events which are temporarily negative, or temporarily positive.

Unsystematic Risk. Unsystematic risk is the company-specific or industry-specific risk in a portfolio that the investor bears. Unsystematic risk is typically addressed through diversification. However, as indicated above, diversification does not guarantee better performance and cannot eliminate the risk of investment losses.

Value Investment Risk. Value stocks may perform differently from the market as a whole and following a value-oriented investment strategy may cause a portfolio to underperform growth stocks.

Growth Investment Risk. Prices of growth stocks tend to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments than other stocks, making their prices more volatile.

Small Company Risk. Securities of small companies are often less liquid than those of large companies and this could make it difficult to sell a small company security at a desired time or price. As a result, small company stocks may fluctuate relatively more in price. In general, small capitalization companies are more vulnerable than larger companies to adverse business or economic developments and they may have more limited resources.

Commodity Risk. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments.

Foreign Securities and Currencies Risk. Foreign securities prices may decline or fluctuate because of: (i) economic or political actions of foreign governments, and/or (ii) less regulated or liquid securities markets. Investors holding these securities are also exposed to foreign currency risk (the possibility that foreign currency will fluctuate in value against the U.S. dollar).

Interest Rate Risk. Fixed income securities and fixed income-based securities are subject to interest rate risk because the prices of fixed income securities tend to move in the opposite direction of interest rates. When interest rates rise, fixed income security prices tend to fall. When interest rates fall, fixed income security prices tend to rise. In general, fixed income securities with longer maturities are more sensitive to these price changes.

Inflation Risk. When any type of inflation is present, a dollar at present value will not carry the same purchasing power as a dollar in the future, because that purchasing power erodes at the rate of inflation.

Reinvestment Risk. Future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate), which primarily relates to fixed income securities.

Credit Risk. The issuer of a security may be unable to make interest payments and/or repay principal when due. A downgrade to an issuer's credit rating or a perceived change in an issuer's financial strength may affect a security's value and impact performance. Credit risk is considered greater for fixed income securities with ratings below investment grade. Fixed income securities that are below investment grade involve higher credit risk and are considered speculative.

Call Risk. During periods of falling interest rates, a bond issuer will call or repay a higher-yielding bond before its maturity date, forcing the investment to reinvest in bonds with lower interest rates than the original obligations.

Regulatory Risk. Changes in laws and regulations from any government can change the market value of companies subject to such regulations. Certain industries are more susceptible to government regulation. For example, changes in zoning, tax structure or laws may impact the return on investments.

**Mutual Fund Risk.** Mutual funds are operated by investment companies that raise money from shareholders and invests it in stocks, bonds, and/or other types of securities. Each fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. Mutual funds charge a separate management fee for their services, so the returns on mutual funds are reduced by the costs to manage the funds. While mutual funds generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market. Mutual funds come in many varieties. Some invest aggressively for capital appreciation, while others are conservative and are designed to generate income for shareholders. In addition, the client's overall portfolio may be affected by losses of an underlying fund and the level of risk arising from the investment practices of an underlying fund (such as the use of derivatives).

**Exchange Traded Fund Risk.** ETFs are marketable securities that are designed to track, before fees and expenses, the performance or returns of a relevant index, commodity, bonds, or basket of assets, like an index fund. Unlike mutual funds, ETFs trade like common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold. In addition to the general risks of investing, there are specific risks to consider with respect to an investment in ETFs, including, but not limited to: (i) an ETF's shares may trade at a market price that is above or below its net asset value; (ii) the ETF may employ an investment strategy that utilizes high leverage ratios; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally.

**Cash and Cash Equivalent Risk.** SFE may hold a portion of client's assets in cash or cash equivalent positions (such as but not limited to money market funds) typically for defensive and liquidity purposes. Investments in these assets may cause a client to miss upswings in the markets. SFE's advisory fee could exceed the interest income from holding cash or cash equivalents. Clients can advise SFE not to maintain (or to limit the amount of) cash or cash equivalent positions in their account.

**Socially Responsible Investing Risks and Limitations.** Socially Responsible Investing involves the incorporation of environmental, social and governance (generally referred to as "ESG") considerations into the investment process. Clients requesting to engage in ESG-focused investing must be willing to accept the inherent risks and limitations of that strategy, including without limitation those risks and limitations described below. The investment universe of ESG related investment vehicles is by nature narrower in scope and therefore the investment options may be limited when compared to non-ESG mandated securities. By narrowing the scope of investment options, clients may miss the opportunity to invest in a non-ESG mandated security or sector, which could contribute to their overall portfolio performance. ESG securities could underperform broad market indexes. ESG mandated investment funds may have higher expense ratios than non-ESG mandated investment vehicles. ESG considerations may vary from person to person, so the client's opinion about what constitutes valid and valuable ESG principles may differ from those of the security issuer. ESG scores and ratings may also differ between two different ESG securities because of the way the respective fund managers analyze and identify ESG factors. The underlying holdings of some ESG investment vehicles may not disclose the same level or scope of ESG information as other companies. As a result, some investments may not capture ESG concepts with 100% accuracy. Therefore, SFE

may rely on portfolio managers to establish their own system of ranking and sustainable factors in coordination with their mandate.

## **Item 9            Disciplinary Information**

While SFE has not been involved in any legal or disciplinary events that it considers material to a client's evaluation of its advisory business or the integrity of its management, it entered into a "Consent Agreement and Order" with the Commonwealth of Pennsylvania Department of Banking and Securities, Bureau of Licensing, Compliance and Examinations (the "Bureau") effective May 16, 2017. The Consent Agreement and Order reflects the Bureau's finding that SFE violated a specific section of the Pennsylvania Securities Act of 1972 because it was not registered as an investment adviser in Pennsylvania from April 2012 until the effective date of the Consent Agreement and Order, by failing to submit applicable forms and fees.

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

- A. Neither SFE, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither SFE, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. There are no relationships or arrangements that are material to SFE's advisory business or to its clients, with any of the types of entities requiring disclosure in this Item 10.C.
- D. SFE does not recommend or select other investment advisors for its clients.

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

- A. SFE maintains an investment policy relative to personal securities transactions. This investment policy is part of SFE's overall Code of Ethics, which serves to establish a standard of business conduct for all of SFE's representatives that is based upon fundamental principles of openness, integrity, honesty, and trust. A copy of the Code of Ethics is available upon request. In accordance with Section 204A of the Investment Advisers Act of 1940 and similar state law, SFE also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by SFE or any of its supervised persons.

- B. Neither SFE nor any of its related persons recommend, buys, or sells for client accounts, securities in which SFE or any related person of SFE has a material financial interest.
- C. SFE its representatives may buy or sell securities that are also recommended to clients. This practice may create a situation where SFE its representatives SFE are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if SFE did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed before those of SFE’s clients) and other potentially abusive practices.

SFE has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of SFE’s “Access Persons.” SFE’s securities transaction policy requires that Access Persons provide the Chief Compliance Officer or their designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or their designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date SFE selects; provided, however that at any time that SFE has only one Access Person, they will not be required to submit any securities report described above.

- D. SFE its representatives may buy or sell securities at or around the same time as those securities are recommended to clients. This practice creates a situation where SFE and its representatives are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C., however, SFE has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of SFE’s Access Persons.

## **Item 12 Brokerage Practices**

- A. If a client requests that SFE recommend a broker-dealer/custodian for execution or custodial services, SFE generally recommends that investment management accounts be maintained at Schwab. Before engaging SFE to provide investment management services, the client enters into an agreement with SFE setting forth the terms and conditions for the management of the client’s assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian. Depending on which broker-dealer/custodian the client selects to maintain their account, they may experience differences in customer service, transaction timing, the availability of sweep account vehicles and money market funds, and other aspects of investing at could cause differences in account performance.

When seeking “best execution,” from a broker-dealer, the determinative factor is not always the lowest possible cost, but whether the transaction represents the best qualitative execution when considering the full range of a broker-dealer’s services including the value of research provided, execution capability, commission rates, and responsiveness. Although SFE cannot guarantee that clients will always experience the best possible execution available, SFE seeks to recommend a broker-dealer/custodian that will hold

client assets and execute transactions on terms that are, overall, most advantageous when compared with other available providers and their services. SFE considers a wide range of factors when recommending a broker-dealer/custodian, 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, ETFs, etc.);
- Quality of services (including research);
- 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; and
- Prior service to SFE and its other clients.

Schwab is compensated for its services according to its fee schedule, generally by charging clients commissions or other fees on trades that it executes or that settle into their Schwab account. Although SFE will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for all client account transactions. The fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, SFE's investment advisory fees. Schwab charges clients a flat dollar amount as a "prime broker" or "trade-away" fee for each trade that SFE executes by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited or settled into the client's Schwab account. These fees are in addition to the commissions or other compensation clients pay the executing broker-dealer. Therefore, in an attempt to minimize client trading costs, SFE directs Schwab to execute most if not all trades for client accounts. When doing so, SFE has determined that having Schwab execute most trades is consistent with the duty to seek "best execution" of client trades.

#### 1. Research and Other Benefits

While SFE does not receive traditional "soft dollar benefits," SFE and by extension, its clients receive access to certain institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. Schwab also makes various support services available to SFE. Some of those services help SFE manage or administer its clients' accounts; while others help it manage and grow its business. Schwab's support services generally are available on an unsolicited basis (SFE does not have to request them) and at no charge to SFE.

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 SFE might not otherwise have access or that would require a significantly higher minimum initial investment by its clients. These services benefit SFE's clients and their accounts.

Schwab also makes other products and services available to SFE that benefits SFE but may only indirectly benefit its clients or their accounts, such as investment research developed by Schwab or third parties that SFE may use to service clients' accounts. 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 other clients' accounts; and
- Assist with back-office functions, recordkeeping, and client reporting.

Schwab also offers other services intended to help SFE manage and further develop its business. These services include:

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

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to SFE. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide SFE with other benefits, such as occasional business entertainment for SFE's personnel.

#### SFE's Interest in Schwab's Services and Benefits and Related Conflict of Interest.

The availability of the services and products described above that SFE receives from Schwab (the "Services and Products") provides SFE with an advantage, because SFE does not have to produce or purchase them. However, SFE does not have to pay Schwab or any other entity for Services and Products that Schwab provides. SFE's clients do not pay more for investment transactions executed or assets maintained at Schwab as a result of this arrangement. The receipt of Services and Products are not contingent upon SFE committing any specific amount of business to Schwab in trading commissions or assets in custody. There is no corresponding commitment made by SFE to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific securities or investment products as a result of the above. However, this arrangement nonetheless incentivizes SFE to recommend that clients maintain their account with Schwab, based on its interest in receiving Schwab's services that benefit its business rather than based on clients' interest in receiving the best value in custody services and the most favorable execution of their transactions. This presents a conflict of interest. When making such a recommendation, however, SFE does so when it reasonably believes that recommending Schwab to serve as broker-dealer/custodian is in the best interests of its clients. It is primarily supported by the scope, quality, and price of Schwab's services and not Schwab's services that benefit only SFE.

2. SFE does not receive referrals from broker-dealers.

3. Directed Brokerage.

SFE does not generally accept directed brokerage arrangements (when a client requires that account transactions be executed through a specific broker-dealer). In those client-directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and SFE will not seek better execution services or prices from other broker-dealers. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. If the client directs SFE to execute securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to execute account transactions through alternative clearing arrangements that may be available through SFE. Higher transaction costs adversely impact account performance. Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

B. SFE will generally execute account transactions for each client independently unless SFE decides to purchase or sell the same securities for several clients at approximately the same time. SFE may (but is not obligated to) combine or "bunch" such orders to seek best execution, to negotiate more favorable commission rates, or to equitably allocate differences in prices and commissions or other transaction costs among SFE's clients, which might have been obtained if the orders were placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. SFE will not receive any additional compensation or remuneration as a result of such aggregation.

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

- A. For those clients to whom SFE provides investment supervisory services, account reviews are conducted on an ongoing basis by SFE's Principals and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise SFE of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with SFE on an annual basis.
- B. Aside from periodic reviews, SFE may also conduct account reviews based on triggering events such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. SFE may also provide a written periodic report summarizing account activity and performance.



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

- A. SFE receives economic benefits from Schwab. SFE's clients do not pay more for investment transactions executed and/or assets maintained at Schwab as a result of this arrangement. There is no commitment made by SFE to Schwab, or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities, or other investment products as a result of the above arrangement. Please refer to Item 12.A.1. for more information.
- B. SFE does not compensate, directly or indirectly, any person other than its representatives for client referrals.

## **Item 15            Custody**

SFE has the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. SFE may also provide a written periodic report summarizing account activity and performance.

To the extent that SFE provides clients with periodic account statements or reports, SFE urges clients to carefully review those statements and compare them to custodial account statements. SFE's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. The account custodian does not verify the accuracy of SFE's advisory fee calculations.

SFE engages in other practices and/or services on behalf of its clients that require disclosure at ADV Part 1, Item 9, which practices and/or services are subject to an annual surprise CPA examination.

## **Item 16            Investment Discretion**

Clients can engage SFE to provide investment advisory services on a discretionary basis. Before SFE assumes discretionary authority over a client's account, clients are required to execute an Investment Advisory Agreement granting SFE full authority to buy, sell, or otherwise execute investment transactions involving the assets in the client's name held in their discretionary account. Clients who engage SFE on a discretionary basis may, at any time, impose restrictions, in writing, on SFE's discretionary authority (i.e., limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe SFE's use of margin, etc.).

**Item 17          Voting Client Securities**

- A. SFE does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact SFE to discuss any questions they may have with a particular solicitation.

**Item 18          Financial Information**

- A. SFE does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. SFE is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. SFE has not been the subject of a bankruptcy petition.

SFE's Chief Compliance Officer, John Zeltmann, is available to discuss any questions about this Brochure or any conflicts of interest presented.