

Form ADV Part II A

Item 1 Cover Page

# Carret Asset Management, LLC

SEC File Number: 801 – 63093

**Brochure Dated  
3/30/2016**

Contact: Marco A. Vega, Chief Compliance Officer  
1345 Avenue of the Americas, 27th Floor  
New York, New York 10105  
[www.carret.com](http://www.carret.com)

This brochure provides information about the qualifications and business practices of Carret Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 593-3800 or [mvega@carret.com](mailto:mvega@carret.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 Carret Asset Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

References herein to Carret Asset Management, LLC 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 made to Carret Asset Management, LLC's disclosure statement since last year's Annual Amendment filing on March 31, 2015.

## Item 3 Table of Contents

Item 1	Cover Page.....	1
Item 2	Material Changes.....	1
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.....	7
Item 7	Types of Clients.....	8
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9	Disciplinary Information.....	10
Item 10	Other Financial Industry Activities and Affiliations.....	10
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
Item 12	Brokerage Practices.....	12
Item 13	Review of Accounts.....	16
Item 14	Client Referrals and Other Compensation.....	16
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. Carret Asset Management, LLC (the “Registrant”) is a limited liability company formed on May, 2004 in the State of New York. The Registrant became registered as an Investment Adviser Firm in May, 2004. The Registrant is owned by Carret Asset Management Group, LLC.
- B. As discussed below, the Registrant offers to its clients (individuals, investment companies, investment limited partnerships, pension and profit sharing plans, Taft Hartley clients, business entities, trusts, estates and charitable organizations, etc.) investment advisory services. To the extent specifically requested by a client, Registrant may provide limited consultation services to its investment management clients on investment and non-investment related matters. Any such consultation services, to the extent rendered, shall be rendered on an unsolicited basis, for which Registrant shall generally not charge a fee. In the event that the client requires extraordinary consultation services (to be determined in the sole discretion of the Registrant), the Registrant may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage the Registrant to provide discretionary investment advisory services on a *fee* basis. The Registrant’s annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under the Registrant’s management (between 0.65% and 1.25%) as follows:

<b>Portfolio Value</b>	<b>Annual Fee</b>
First \$2 million of value	1.25% annually (0.3125% quarterly)
Next \$3 million of value	1.00% annually (0.2500% quarterly)
Next \$5 million of value	0.75% annually (0.1875% quarterly)
Next \$10 million of value	0.70% annually (0.1750% quarterly)
Thereafter	0.65% annually (0.1625% quarterly)

### **MISCELLANEOUS**

**Limited Consulting / Implementation Services.** Although the Registrant does not hold itself out as providing financial planning, estate planning or accounting services, to the extent specifically requested by the client, the Registrant *may* provide limited consultation services to its investment management clients on investment and non-investment related matters, such as estate planning, tax planning, insurance, etc. Registrant shall not receive any separate or additional fee for any such consultation services. Neither the Registrant, nor any of its representatives, serves as an attorney, accountant, or licensed insurance agent, and no portion of the Registrant’s services should be construed as same. To the extent requested by a client, the Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute recommendation from the Registrant. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the

engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

**Private Investment Funds.** Registrant may provide investment advice regarding private investment funds. The Registrant's role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of Registrant calculating its investment advisory fee. Registrant's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

**Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment. When managing a Private Investment Fund, the Registrant does not consider the objectives of any individual investor in the Fund but rather manages the Fund in accordance with the Fund's objectives and Private Placement Memorandum.

**Please Also Note: Valuation.** In the event that the Registrant references private investment funds owned by the client on any supplemental account reports prepared by the Registrant, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be significantly more or less than the original purchase price.

**Please Note: Cash Positions.** At any specific point in time, depending upon perceived or anticipated market conditions/events (there being no guarantee that such anticipated market conditions/events will occur), the Registrant may maintain cash positions for defensive purposes. All cash positions (money markets, etc) may be included as part of assets under management for purposes of calculating the Registrant's advisory fee. The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above fee billing practice.

**Please Note (Wrap/Managed Account Programs).** In the event that Registrant is engaged to provide investment management services as part of an unaffiliated wrap-fee program, Registrant will be unable to negotiate commissions and/or transaction costs. Under a wrap program, the wrap program sponsor arranges for the investor participant to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap program may cost the participant more or less than purchasing such services separately. In the event that Registrant is engaged to provide investment management

services as part of an unaffiliated managed account program, Registrant will likewise be unable to negotiate commissions and/or transaction costs. If the program is offered on a non-wrap basis, the program sponsor will determine the broker-dealer through which transactions must be effected, and the amount of transaction fees and/or commissions to be charged to the participant investor accounts.

**Please Note: Inverse/Enhanced Market Strategies.** The Registrant may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be no assurance that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

**Client Obligations.** In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

**Disclosure Statement.** A copy of the Registrant's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement*. Any client who has not received a copy of Registrant's written Brochure at least 48 hours prior to executing the *Investment Advisory Agreement* shall have five business days subsequent to executing the agreement to terminate the Registrant's services without penalty.

- C. The Registrant shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on the Registrant's services.
- D. There is no significant difference between how the Registrant manages wrap fee accounts and non-wrap fee accounts. However, as stated above, if a client determines to engage the Registrant on a wrap fee basis the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody) (See Item 4.B). The services included in a wrap fee agreement will depend upon each client's particular need. If the client determines to engage the Registrant on a non-wrap fee basis the client will select individual services on an unbundled basis, paying for each service separately (i.e. investment advisory, brokerage, custody). **Please Note:** When managing a client's account on a wrap fee basis, the Registrant shall receive as payment for its investment advisory services, a portion of the wrap fee after all other costs incorporated into the wrap fee have been deducted.
- E. As of December 31, 2015, the Registrant had \$1,922,760,373 in assets under management on a discretionary basis.

## Item 5 Fees and Compensation

- A. The client can determine to engage the Registrant to provide discretionary investment advisory services on a *fee* basis.

### INVESTMENT ADVISORY SERVICES

If a client determines to engage the Registrant to provide discretionary a investment advisory services on a *fee* basis, the Registrant's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under the Registrant's management (between 0.65% and 1.25%) as follows:

Portfolio Value	Annual Fee
First \$2 million of value	1.25% annually (0.3125% quarterly)
Next \$3 million of value	1.00% annually (0.2500% quarterly)
Next \$5 million of value	0.75% annually (0.1875% quarterly)
Next \$10 million of value	0.70% annually (0.1750% quarterly)
Thereafter	0.65% annually (0.1625% quarterly)

- B. Clients may elect to have the Registrant's advisory fees deducted from their custodial account. Both Registrant's Investment Advisory Agreement and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures. In the event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. The Registrant shall deduct fees and/or bill clients quarterly in advance or arrears (as the case may be), based upon the market value of the assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Registrant shall generally recommend that Charles Schwab & Co., Inc. ("Schwab") and/or Fidelity Investments ("Fidelity") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as Schwab and Fidelity charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). When beneficial to the client, individual fixed-income and/or equity transactions may be effected through broker-dealers with whom Registrant and/or the client have entered into arrangements for prime brokerage clearing services, including effecting certain client transactions through other SEC registered and FINRA member broker-dealers (in which event, the client generally will incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by the Schwab and/or Fidelity).
- D. Registrant's annual investment advisory fee shall be prorated and paid quarterly, in advance or arrears (as the case may be), based upon the market value of the assets on the last business day of the previous quarter. The Registrant generally requires a \$6,250 minimum annual fee and a minimum asset level of \$500,000 for investment advisory

services. The Registrant, in its sole discretion, may reduce its investment management fee and/or reduce or waive its minimum annual fee or 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.).

The Investment Advisory Agreement between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the Investment Advisory Agreement. Upon termination, if billed in advance, the Registrant shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter. Upon termination, if billed in arrears, the Registrant shall debit the account for the pro-rated portion of the unpaid advanced advisory fee based upon the number of days that services were provided during the billing quarter

- E. **Securities Commission Transactions. Please Note:** Registrant's representative, Marco A. Vega, in his individual capacity, is a registered representative of Brean Capital, LLC, an affiliated SEC registered and FINRA member broker-dealer. Mr. Vega does not offer investment products, on a commission basis, to Registrant's clients. Mr. Vega's securities commission services are not material to Registrant's advisory business.

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

Registrant may charge performance-based fees to clients who have at least \$1,000,000 in portfolio assets managed by the firm, or who together with their spouse have a net worth of at least \$2,000,000 excluding principal residence. Clients are advised that performance-based fees involve a sharing of any portfolio gains between the client and the investment manager. Such performance-based fees create an economic incentive for Registrant to take additional risks, such as using leverage, in the management of a client portfolio that may be in conflict with the client's current investment objectives and tolerance for risk. No performance-based fees will be assessed until the portfolio, on a cumulative basis from account inception, is in a net gain position.

Performance-based fees are in addition to the asset-based fees detailed in Item 5 of this Brochure. Clients are also advised that as a result of the standard asset-based fee and the performance-based fee, the investment manager has an economic incentive to recommend a performance-based fee structure.

Performance-based fees may only be offered to clients who meet one of the following criteria:

- A natural person who or a company that immediately after entering into the contract has at least \$1,000,000 under the management of the investment adviser
- A natural person who or a company that the investment adviser entering into the contract (and any person acting on his behalf) reasonably believes, immediately prior to entering into the contract, either:
- Has a net worth (together, in the case of a natural person, with assets held jointly with a spouse, excluding principal residence) of more than \$2,000,000, at the time the contract is entered into; or

- Is a qualified purchaser as defined in section 2(a)(51)(AA) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(51)(A)) at the time the contract is entered into; or
- A natural person who immediately prior to entering into the contract is:
  - An executive officer, director, trustee, general partner, or person serving in similar capacity of the investment adviser; or
  - An employee of the investment adviser (other than an employee performing solely clerical, secretarial, or administrative functions with regard to the investment adviser) who, in connection with his or her regular functions or duties, participates in the investment activities of such investment adviser, provided that such employee has been performing such functions and duties for or on behalf of the investment adviser, or substantially similar functions or duties for or on behalf of another company for at least 12 months.

## Item 7 Types of Clients

The Registrant's clients shall generally include individuals, investment companies, investment limited partnerships, pension and profit sharing plans, Taft Hartley clients, business entities, trusts, estates and charitable organizations. The Registrant generally requires a \$6,250 minimum annual fee and a minimum asset level of \$500,000 for investment advisory services. The Registrant, in its sole discretion, may reduce its investment management fee and/or reduce or waive its minimum annual fee or 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.).

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

- A. The Registrant 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)
  - Cyclical – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

The Registrant may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Sales (contracted sale of borrowed securities with an obligation to make the lender whole)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)



**Please Note: Investment Risk.** 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 the Registrant) will be profitable or equal any specific performance level(s).

- B. The Registrant's methods of analysis do not present any unusual risks. However, the Registrant does recommend strategies that carry a high level of risk and that may be in conflict with the clients investment objectives through the use of margin and the charging of performance fees.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant'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.

The Registrant's primary investment strategies - Long Term Purchases is a 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.

In addition to the fundamental investment strategies discussed above, the Registrant may also implement and/or recommend – short selling, use of margin, and/or options transactions. Each of these strategies has a high level of inherent risk. (See discussion below).

Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please Note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by the Registrant in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to the Registrant may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the conflict of interest whereby the client's decision to employ margin

may correspondingly increase the management fee payable to the Registrant. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by the Registrant shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio.

**Please Note:** Although the intent of the options-related transactions that may be implemented by the Registrant is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Currently, the Registrant primarily allocates client investment assets among various individual equity (stocks) and debt (bonds) securities, exchange traded funds ("ETFs") (including inverse ETFs and/or mutual funds that are designed to perform in an inverse relationship to certain market indices), and, to a much lesser extent, among no load and/or load waived mutual funds, on a discretionary basis in accordance with the client's designated investment objective(s).

As disclosed above, the Registrant may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be no assurance that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts. (See Item 4 B).

The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above and any corresponding conflict of interest such investment strategies and risks may create.

## **Item 9 Disciplinary Information**

The Registrant has not been the subject of any disciplinary actions.

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

- A. **Registered Representatives of Brean.** Registrant's representative, Marco A. Vega, in his individual capacity, is a registered representative of Brean Capital, LLC, an affiliated SEC

registered and FINRA member broker-dealer. Mr. Vega does not offer investment products, on a commission basis, to Registrant's clients. Mr. Vega's securities commission services are not material to Registrant's advisory.

- B. Neither the Registrant, 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. **Private Investment Fund.** The Registrant, on a non-discretionary basis, may recommend that qualified clients consider allocating a portion of their investment assets in private investment funds. The terms and conditions for participation in any private investment fund, including management fees, conflicts of interest, and risk factors, are set forth in each fund's offering documents.

**Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Please Also Note: Valuation.** In the event that the Registrant references private investment funds owned by the client on any supplemental account reports prepared by the Registrant, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be significantly more or less than the original purchase price.

- D. The Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics, which serves to establish a standard of business conduct for all of Registrant's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. The Registrant and/or representatives of the Registrant *may* buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the Registrant 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 the Registrant 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 prior to those of the Registrant's clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant's "Access Persons". The Registrant's securities transaction policy requires that an Access Person of the Registrant must provide the Chief Compliance Officer or his/her 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 his/her 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 the Registrant selects; provided, however that at any time that the Registrant has only one Access Person, he or she shall not be required to submit any securities report described above.

- C. The Registrant and/or representatives of the Registrant *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the Registrant 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, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Registrant's Access Persons.

## Item 12 Brokerage Practices

- A. In the event that the client requests that the Registrant recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Registrant to use a specific broker-dealer/custodian), Registrant generally recommends that investment management accounts be maintained at *Schwab* and/or *Fidelity*. Prior to engaging Registrant to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in recommending *Schwab* and/or *Fidelity* (or any other broker-dealer/custodian to clients) include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management fee. The Registrant's best execution responsibility is qualified if securities

that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

#### 1. Schwab Referrals

Registrant receives client referrals from Schwab through Registrant's participation in Schwab Advisor Network™ ("the Service"), designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of an unaffiliated with Registrant. Schwab does not supervise Registrant and has no responsibility for Registrant's management of clients' portfolios or Registrant's other advice or services. Registrant pays Schwab fees to receive client referrals through the Service. Registrant's participation in the Service may raise potential conflicts of interest described below.

Registrant pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by Registrant is a percentage of the fees owed by the client to Registrant or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. Registrant pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to Registrant quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Registrant and not by the client. Registrant has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Registrant charges clients with similar portfolios (pursuant to Registrant's standard fee schedule as in effect from time to time) who were not referred through the Service.

Registrant may pay Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab, unless the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed in custody other than at Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Registrant generally would pay in a single year. Thus, Registrant will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Registrant's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Registrant will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit Registrant's fees directly from the accounts.

For accounts of Registrant's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from Registrant's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades to be executed through Schwab rather than another broker-dealer. Registrant nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Registrant's other clients. Thus, trades for accounts custodied at Schwab may be

executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.

#### Soft Dollar Arrangement

In return for effecting securities transactions through a designated broker-dealer/custodian, Registrant may receive certain investment research products or services which assist the Registrant in its investment decision making process for the client pursuant to Section 28(e) of the Securities Exchange Act of 1934 (generally referred to as a "soft-dollar" arrangement). Investment research products or services received by Registrant may include, but are not limited to, analyses pertaining to specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications, portfolio management systems, and statistical and pricing services. Although the commissions paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. Although the investment research products or services that may be obtained by Registrant will generally be used to service all of Registrant's clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. With respect to investment research products or services obtained by the Registrant that have a mixed use of both a research and non-research (i.e., administrative, etc.) function, Registrant shall make a reasonable allocation of the cost of the product or service according to its use - the percentage of the product or service that provides assistance to the Registrant's investment decision-making process will be paid for with soft dollars while that portion which provides administrative or other non-research assistance will be paid for by the Registrant with hard dollars. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management fee.

The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.

#### Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant may receive from *Schwab* and/or *Fidelity* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of

which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Registrant may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Registrant in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at Schwab and/or Fidelity as a result of this arrangement. There is no corresponding commitment made by the Registrant to Schwab and/or Fidelity 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.

The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

2. Registrant may receive client referrals from *Schwab* through its participation in the Schwab Advisor Network™.

The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.

3. The Registrant does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, 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.

**Please Note:** In the event that the client directs Registrant to effect 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 effect account transactions through alternative clearing arrangements that may be available through Registrant.

The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that the Registrant provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been 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. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

## **Item 13 Review of Accounts**

- A. For those clients to whom Registrant provides investment advisory services, account reviews are conducted on an ongoing basis by the Registrant's Principals and/or representatives. All investment advisory clients are advised that it remains their responsibility to advise the Registrant 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 the Registrant on an annual basis.
- B. The Registrant may conduct account reviews other than on a periodic basis upon the occurrence of a triggering event, 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. The Registrant may also provide a written periodic report summarizing account activity and performance.
- D. The Registrant is compliant on a firm wide and composite basis with the Global Investment Performance Standards ("GIPS). Ashland Partners & Company, LLP, a nationally recognized independent accounting firm that specializes in GIPS, performs examinations of the Firm and the Firm's Municipal Bond Composite and Taxable Bond Composite. A copy of their most recent report is available upon request.

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

- A. As referenced in Item 12.A.1 above, the Registrant may receive an indirect economic benefit from Schwab and/or Fidelity. The Registrant, without cost (and/or at a discount), may receive support services and/or products from Schwab and/or Fidelity.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at Schwab and/or Fidelity as a result of this arrangement. There is no corresponding commitment made by the Registrant to Schwab and/or Fidelity 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.

The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest any such arrangement may create.

- B. If a client is introduced to the Registrant by either an unaffiliated or an affiliated solicitor, Registrant *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from the Registrant's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to the Registrant by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of the Registrant's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between the Registrant and the solicitor, including the compensation to be received by the solicitor from the Registrant.

## Item 15 Custody

The Registrant shall have 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. The Registrant may also provide a written periodic report summarizing account activity and performance.

The Registrant is deemed to have custody of clients' cash and securities because in certain instances, as the investment advisor, it has the authority to transact on behalf of the clients. An independent public accountant is engaged to perform a surprise examination of client assets on an annual basis

**Please Note:** To the extent that the Registrant provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Registrant with the account statements received from the account custodian.

**Please Also Note:** The account custodian does not verify the accuracy of the Registrant's advisory fee calculation.

## Item 16 Investment Discretion

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, the client shall be required to execute an Investment Advisory Agreement, naming the Registrant as the client's attorney and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Registrant on a discretionary basis may, at anytime, impose restrictions, in writing, on the Registrant'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 the Registrant's use of margin, etc.).

## **Item 17 Voting Client Securities**

- A. Unless the Registrant has agreed to otherwise, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities 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.

In the event that Registrant does vote proxies, absent mitigating circumstances and/or conflicts of interest (to the extent any such circumstance or conflict is presented, if ever, information pertaining to how the Registrant addressed any such circumstance or conflict shall be maintained by the Registrant), it is the Registrant's general policy to vote proxies in conjunction with the services provided by, and consistent with the recommendations of Broadridge Investor Communications Solutions ("Broadridge"). With regard to Taft-Hartley clients, Registrant has retained Broadridge, at no cost to the client, to vote all proxies in accordance with AFL-CIO Guidelines for Voting Proxies which by definition is in the best interests of the client.

The Registrant (in conjunction with the services provided by Broadridge) shall monitor corporate actions of individual issuers and investment companies consistent with the Registrant's fiduciary duty to vote proxies in the best interests of its clients. With respect to individual issuers, the Registrant may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), the Registrant may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. The Registrant (in conjunction with the services provided by Broadridge) shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. Copies of Rules 206(4)-6 and 204-2(c)(2) are available upon written request. In addition, information pertaining to how the Registrant voted on any specific proxy issue is also available upon written request. Requests should be made by contacting the Registrant's Chief Compliance Officer, Marco A. Vega.

- B. Unless the Registrant has agreed to vote client proxies, clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Registrant to discuss any questions they may have with a particular solicitation. The Registrant may provide information but will not act or advise Clients in any legal proceedings, including but not limited to class actions, involving securities held or previously held by the Account.

## **Item 18 Financial Information**

- A. The Registrant does not solicit fees of more than \$1,200, per client, six months or more in advance.

- B. The Registrant 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. The Registrant has not been the subject of a bankruptcy petition.

ANY QUESTIONS: The Registrant's Chief Compliance Officer, Marco A. Vega, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.