

# Feltl and Company

## Firm Brochure

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*This brochure provides information about the qualifications and business practices of Feltl and Company. If you have any questions about the contents of this brochure, please contact us at 866.655.3431. 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.*

*Registration as a Registered Investment Advisor does not imply a certain level of skill or training.*

*Additional information about Feltl and Company also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

**Item 2 *Material Changes***

Feltl and Company, Inc. (“F&C”) has instituted major modifications to its investment advisory business since it last filed an amended Form ADV in March 2010. Those changes include a new advisory platform, new advisory products, new fee structure, new forms and procedures, and new reporting capabilities, which are described herein. This brochure also contains new information concerning F&C’s actual and potential conflicts of interest. Because of all these changes, this brochure should be read thoroughly and carefully. Any questions may be directed to F&C’s Chief Compliance Officer at (612) 492-8882 or General Counsel at (612) 372-4300.

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**Item 4 *Advisory Business***

A. F&C is incorporated in the State of Minnesota and has been operating since 2002. F&C is registered with the Securities & Exchange Commission (“SEC”) as both a Broker-Dealer of investment securities (“BD”) and a Registered Investment Advisor (“RIA”). Registration with the SEC as either a BD or RIA does not imply a certain level of skill or training. F&C is a privately-held corporation. All of F&C’s stock is owned by John C. Feltl and a trust that is controlled by Mary Joanne Feltl. F&C has no affiliated or subsidiary entities. National Financial Services, LLC (“NFS”), a division of Fidelity Investments, provides clearing brokerage services on both the BD and RIA segments of F&C’s business. Those clearing services are described in more detail in Item 10(C) below.

B. F&C offers three types of advisory accounts:

1. Separately-Managed Account (“SMA”) – With the assistance of F&C’s Investment Advisor Representative (“IAR”), the customer selects one or more third-party professional money managers (“PMM”). The PMM is selected by matching the PMM’s investment strategy and risk profile with the customer’s risk profile and stated investment needs and objectives. The selected PMM invests and manages the customer’s assets on a discretionary basis, meaning the PMM selects investments for the customer without prior approval from the customer or the IAR. That said, F&C does not consider this to be a “discretionary account” because, although the PMM may exercise discretion in selecting investments for the customer, F&C itself does not exercise discretion, either in the selection of the PMM or in the selection of particular investments. The IAR actively monitors the performance of the selected PMM and may recommend a change in the PMM when and if the IAR believes such a change would be in the best interests of the customer. The customer must approve any change before it will be implemented.
2. IAR Actively Managed Account (“AMA”) – F&C’s IAR recommends specific investments to the customer based on the customer’s risk profile and stated investment needs and objectives. Such investments, depending on the individual customer, may include individual stocks and bonds, options, mutual funds, annuities, and insurance products. AMA accounts are non-discretionary, meaning the customer must approve each and every transaction before execution. The IAR actively monitors AMA accounts to determine whether the investments are generally performing within the anticipated guidelines (recognizing that neither F&C nor the IAR can guarantee a profitable outcome), and whether the allocation of assets among risk categories is being adequately maintained. The IAR may recommend changes to the portfolio composition when and if the IAR believes such changes would be in the best interests of the customer. The customer must approve all transactions in advance of their execution.
3. IAR Transactional Advice Account (“TAA”) – As a result of F&C’s historical emphasis on its stock brokerage business, F&C recognizes that certain customers may wish to engage in frequent securities transactions, but would prefer to pay for those trades through an asset-based fee, rather than pay commissions on each and every trade. These customers seek advice on individual securities transactions, but are uninterested in the type of “active” account management described in the prior paragraph. For these customers, F&C has designed the Transactional Advice Account. On a TAA account, F&C’s IAR recommends specific investments to the customer based on the customer’s risk profile and stated investment needs and objectives. Such investments, depending on the individual customer, may include individual stocks and bonds, options, mutual funds, annuities, and insurance products. TAA accounts are non-discretionary, meaning the customer must approve each and every transaction before execution. Unlike the AMA account described

in the prior paragraph, on the TAA account, the IAR is not responsible for monitoring the account's performance or recommending changes in the composition of the portfolio. Rather, the IAR will provide trade-by-trade advice isolated to specific transactions executed in the account, without any ongoing duty to monitor the account. The advisory fee that is paid is simply in lieu of paying commissions – the fee does not pay for ongoing management.

- C. Each F&C advisory customer, regardless of the account category, must complete a suitability questionnaire. Based on the customer's answers to the questionnaire, the customer's stated investment needs and objectives, and the IAR's discussions with the customer, the IAR will propose one of the three account categories described in Item 4(B) above. If the SMA is selected, the IAR will then propose specific PMM(s). If the AMA is selected, the IAR will then propose an appropriate asset allocation and specific investments for the customer's approval. If the TAA is selected, the IAR will recommend specific investments. In all of the account categories, the customer may accept or reject the IAR's recommendations, request alternative ideas, and/or suggest different strategies.
- D. All three types of accounts described above are deemed "wrap fee" programs. The differences in how these three types of programs are managed are discussed in Item 4(B) above. F&C receives a portion of the advisory fee on all types of advisory accounts.
- E. F&C has about \$107.8 million assets under management on the RIA side of its business. F&C does not consider any of its advisory accounts to be "discretionary." Although the PMM exercises discretion in choosing investments for SMA accounts, the role that F&C and its IAR play on such accounts is non-discretionary – i.e., F&C's role is limited to assisting the customer in choosing a PMM. Thus, all of the assets that F&C has under management are deemed "non-discretionary." Of that \$107.8 million, about \$9.8 million is placed with outside PMMs.

**Item 5 Fees and Compensation**

- A. The advisory fees that F&C charges are negotiable. The following chart sets forth for each type of account described in Item 4(B), the *maximum* annual fees that ordinarily may be charged:

| <u>Account Value</u>       | <u>SMA</u> | <u>AMA</u> | <u>TAA</u> |
|----------------------------|------------|------------|------------|
| First \$500,000            | 3.75%      | 4.00%      | 3.50%      |
| \$500,000 to \$1,000,000   | 3.50%      | 3.75%      | 3.25%      |
| \$1,000,000 to \$3,000,000 | 3.25%      | 3.50%      | 3.00%      |
| \$3,000,000 to \$5,000,000 | 3.00%      | 3.25%      | 2.75%      |
| Over \$5,000,000           | 3.00%      | 3.00%      | 2.50%      |

The annual fee may exceed the percentages listed above *only if* special circumstances exist, and F&C's Chief Compliance Officer approves the upward deviation.

- B. Fees are paid in advance at the start of each calendar quarter. NFS deducts the fees from customer accounts, and pays those fees to F&C, which shares the fees with the IAR who is assigned to the customer account.
- C. In addition to the annual fees described in subpart A above, customers who have Individual Retirement Accounts pay a \$35.00 annual custodian fee to the trustee of the IRA, which typically is NFS. Customers who choose to maintain AMA and TAA accounts pay a \$75.00 annual fee to NFS to cover billing and reporting services.

Customers with TAA accounts, in addition to the annual fees already described, will be charged a "ticket charge" of \$12.00 per transaction, which is a pass-through of the charge F&C pays NFS on each transaction. If F&C's total number of tickets (or transactions) for all customers in both the BD and RIA divisions exceeds a certain target number in any given month, F&C may receive a rebate from NFS of a portion of the ticket charges for that month. Such rebates are retained by F&C and are not shared with customers.

Although margin accounts are not usually permitted in advisory accounts, if indeed such an arrangement was requested and approved, the customer is advised that under F&C's clearing agreement with NFS, F&C receives a share of the margin interest generated on debit balances in customers' margin accounts.

Under F&C's clearing agreement with NFS, F&C may also receive from NFS a payment based on a percentage of the free credit balances that F&C's customers have on deposit with NFS. In the current interest rate environment, no such payment is occurring, but if interest rates were to rise, F&C could receive compensation from NFS under the aforementioned agreement.

- D. The annual fee described in subpart A above is charged on a quarterly basis in advance of each quarter, and is based upon the value of the account at the close of the prior quarter. If a customer chooses to close an account in the middle of a quarter, the customer will receive a refund of the prorated amount of the fee that was paid in advance.
- E. In addition to the fees and charges described in subparts A and C above, F&C may receive the following forms of compensation:
  - 1. On mutual funds, F&C sells primarily "A shares" and "no load" funds to advisory accounts. F&C may receive ongoing payments from the mutual fund companies related to those purchases, which are commonly known as "12b-1 fees."
  - 2. Certain new issue offerings, whether underwritten by F&C or by an unaffiliated financial institution, carry a sales credit that is built into the price of the offering –

in other words, a commission. For example, a customer may purchase an offering at \$25.00 per share that includes a built-in sales credit of \$0.50 per share. If a customer chooses to purchase that type of product in an advisory account, the customer would be paying both a commission and an advisory fee on that product for as long as that product is held in the advisory account. In those circumstances, F&C does *not* typically adjust the sales credit or the annual fee to account for the double payment, but may do so in particular circumstances.

3. IARs may recommend the purchase of certain proprietary corporate finance products to customers who hold TAA accounts. Such products include private placements of securities, debt offerings, initial public offerings, and secondary offerings for which F&C serves as an underwriter for the offering. As described in the prior paragraph, those products carry a sales credit built into the price of the offering. If a customer chooses to purchase this type of product in an advisory account, the customer would be paying both a commission and an advisory fee on that product for as long as that product is held in the advisory account. In those circumstances, F&C does *not* typically adjust the sales credit or the annual fee to account for the double payment, but may do so in particular circumstances. In addition, F&C receives other underwriting fees and expenses on these corporate finance products, and typically receives stock warrants as well. On each such offering, the sales credits, underwriting fees, warrants, and other forms of compensation that F&C receives are clearly described in the offering memorandum that each customer receives before making the investment. This information is usually summarized on the cover page of the offering memorandum. These corporate finance products may generate substantial revenue for F&C.
4. F&C's IARs may recommend the purchase of certain products outside of the advisory account as part of the customer's recommended investment mix. Examples might include variable annuities or other insurance-based products. In those instances, F&C will receive compensation related to the customer's purchase of that product, but F&C will not charge an asset-based annual fee on the product, which is typically held outside the F&C advisory account.

Because F&C and its IARs receive additional compensation on the products described in this subpart E, this presents a conflict of interest – F&C and the IAR have a financial incentive to recommend these types of products, whether or not they are in the best interests of the customer. F&C may also have a financial incentive to recommend corporate finance products to its customers to make sure that a particular underwriting is fully subscribed. To deal with such actual and potential conflicts, F&C does the following:

1. Trains its IARs that they have a fiduciary duty to always act in the best interests of the customer, rather than their own personal interests or the interests of F&C.
2. F&C's supervisors review all trading in advisory accounts to assess whether the activity is in the customer's best interests.

3. F&C limits the purchase of its proprietary corporate finance products to advisory customers holding TAA accounts. TAA accountholders desiring to purchase corporate finance products will receive, in addition to the usual offering documents, a special disclosure statement reminding the customer that (i) The investment is a proprietary product of F&C; (ii) F&C and the IAR will receive additional compensation related to the customer's purchase of that product beyond the annual advisory fee; (iii) The sale of the product will be deemed a "principal transaction" under SEC rules; and (iv) Significant conflicts of interest may exist due to the aforementioned factors. The customer will be required to read and sign the disclosure statement. The customer's signature will signify that he/she has read and understands the disclosure, accepts the conflicts of interest, and specifically consents to engaging in a principal transaction with F&C. F&C's Compliance Department must review and approve the purchase of all proprietary products before the purchase is consummated.
4. F&C asks that customers notify F&C's Compliance Department promptly if they suspect that the IAR may be recommending investments for the primary purpose of benefitting the IAR or F&C. Customers should keep in mind they are always free to accept or reject any recommendation that F&C or its IARs might make. Moreover, customers are always free to purchase products from other BDs and RIAs that are unaffiliated with F&C, even if the product or investment strategy was initially introduced and/or recommended by F&C's IAR (with the exception of F&C's proprietary corporate finance products, which are generally not available through other BDs or RIAs).

**Item 6**      *Performance-Based Fees and Side-By-Side Management*

This Item is inapplicable because F&C does not charge "performance-based" fees, nor does it engage in "side-by-side" management.

**Item 7**      *Types of Customers*

The vast majority of F&C's advisory customers are individual investors. F&C also offers investment advice to corporations, partnerships, pension and profit sharing plans, institutions, trusts, and other business entities. F&C does not currently have a minimum account size to open or maintain AMA or TAA accounts, but reserves the right to implement minimums in the future. On SMA accounts, individual PMMs may have account minimums.

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

- A. F&C does not employ a particular method of analysis or investment strategy. Rather, investment strategy is developed on a case-by-case basis. F&C's IARs work with each customer to determine his/her risk profile and investment needs and objectives. With that information, the IAR recommends a type of advisory account, and then recommends either a PMM (for SMA accounts) or particular investments (for AMA and TAA accounts) that best match the customer's requirements.
- B. Any investment strategy involves a risk that the customer may lose part of his/her investment, and that loss could be substantial. Certain categories of investments have historically been viewed as having less risk than others, but in the Great Recession of 2008 and 2009, many of those asset classes lost substantial value as well. For example, so called "blue chip" stocks, bonds and bond funds, and similar investments that had been viewed as relatively conservative proved not to be so. "Guaranteed" investments, like fixed annuities, are deemed "safe," but in reality, are only as safe as the financial strength of the insurance company issuing the policy. Even U.S. Treasuries may go up and down in market value, and are only "guaranteed" against loss if the customer is willing and able to hold the instrument until maturity.
- C. F&C's Research Department, among other things, follows and publishes research reports on many early stage and small-cap companies. F&C's Corporate Finance Department often assists early stage companies in raising capital through various types of offerings. (See Item 5(E)(3) above.) As a result, F&C's IARs are often familiar with many early stage and small-cap companies, including companies the IAR might follow separate and apart from F&C's Research and Corporate Finance Departments. IARs may recommend such investments to their advisory customers if such investments match the customer's risk profile and stated investment needs and objectives. Although all investments carry a risk of loss (as discussed in the prior paragraph), investments in early stage and small-cap companies may carry an even higher risk of loss than other asset categories. Such companies often do not have a track record of profitability, may involve technologies or operations that have yet to prove successful, may see drastic and sudden price fluctuations, and may have little-to-no public market if the customer should later want to sell the investment (i.e., low or no liquidity). A customer should not invest in early stage or small small-cap companies unless the customer can afford to lose his/her entire investment.

**Item 9**      *Disciplinary Information*

- A. F&C and its managers have never been convicted of, and are not currently named in, any criminal proceeding alleging commission of a felony, or a misdemeanor involving fraud-related allegations, or conspiracy allegations. F&C and its managers have never been found in any civil action to have engaged in fraudulent activities or to have violated any investment-related statutes.

- B. F&C and its managers have never been found by the SEC or any other state or federal regulatory agency to have engaged in fraudulent activities, to have violated any investment-related statutes, or to have caused an investment-related business to lose its authorization to conduct business.
- C. F&C's RIA division and managers have never been found by any self-regulatory organization ("SRO") to have engaged in fraudulent activities, to have violated any investment-related statutes or industry rules, or to have caused an investment-related business to lose its authorization to conduct business. F&C's BD division has been the subject of two SRO consent orders, as described below:
  - 1. National Association of Securities Dealers ("NASD"), Case No. E042005004202, Letter of Acceptance, Waiver and Consent dated July 19, 2006: Inadequate disclosures on research reports, and insufficient supervisory procedures related to research reports. Result: F&C censured and fined \$10,000.
  - 2. Financial Industry Regulatory Authority ("FINRA"), Case No. 2008015231501, Letter of Acceptance, Waiver and Consent dated July 28, 2010: Trade reports that F&C filed in accordance with SEC Rules 605 and 606 were incomplete in that they did not contain data from trades executed through the Bloomberg trading system. In addition, F&C did not have adequate supervisory procedures to detect this omission. Result: F&C censured and fined \$15,000.

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

- A. As disclosed in Item 4(A) above, F&C is registered as both an RIA and BD. All of F&C's IARs are also registered as Registered Representatives ("RRs") of F&C's BD.
- B. F&C and its IARs are *not* registered with any commodities or futures organizations.
- C. National Financial Services, LLC ("NFS"), a division of Fidelity Investments, provides clearing brokerage services on both the BD and RIA segments of F&C's business. Those services include: (i) maintaining custody of assets; (ii) serving as custodian on Individual Retirement Accounts; (iii) trade execution, processing, and confirmation; (iv) front-office and back-office systems; (v) quarterly customer billing and reporting; (vi) recordkeeping; (vii) arranging for the sending of proxy notices, class action notices, and other similar notices through an arrangement with ADP; and (viii) issuing monthly (or quarterly) customer account statements.
- D. Other than the PMMs that F&C's IARs may recommend in connection with the SMA accounts (*see* Item 4(B)(1) above), F&C does not recommend or refer its customers to other investment advisors for compensation.

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

- A. Pursuant to SEC Rule 204A-1, F&C has created and adopted a Code of Ethics addressing a variety of topics, including: fiduciary duty and general standards of conduct; personal securities transactions; unethical trading practices; and misuse of material inside information. Upon request, F&C will provide a copy of its Code of Ethics to any customer or potential customer.
- B. F&C may sell proprietary corporate finance products to advisory customers. For a discussion of the conflicts of interest involved in those sales, and how F&C addresses those conflicts, see Item 5(E) above.
- C. F&C, its officers, employees, and IARs may invest in the same securities in which F&C's customers are invested. At times, individual F&C personnel may make investments consistent with recommendations being made to customers (*i.e.*, F&C personnel buy a particular security at the same time buy recommendations are being made to customers, or sell at the same time sell recommendations are being made to customers). Other times, individual F&C personnel may be making investment decisions that are contrary to the recommendations being made to customers (*i.e.*, F&C personnel may sell a particular investment at the same time buy recommendations are being made to customers, or buy at the same time sell recommendations are being made to customers). As such, there is a potential that conflicts of interest may arise.

F&C has made it very clear to all personnel, in its Code of Ethics and otherwise, that F&C and its IARs owe a fiduciary duty to their customers, that the best interest of the customer is paramount, and must always take precedence over the interests of F&C and its agents. F&C has multiple policies in place to detect, prevent, and remedy these potential conflicts. If the "recommendation" at issue is actually a formal recommendation from F&C's Research Department, there are rules in place as to when an IAR is allowed to trade a security following a change in recommendation – *i.e.*, customer orders are taken first. If the "recommendation" at issue is simply the IAR's personal recommendation to the customer, F&C has reports that are triggered whenever an IAR trades in the same security on the same day as one (or more) of the IAR's customers. In that instance, assuming the IAR's activity is consistent with the customer's activity, the customer(s) will always get the better price, and the IAR will be assigned the worst price of the day, among his/her customers. If the IAR's activity is contrary to the customer's activity (*i.e.*, the IAR is buying when the customer is selling and vice versa), the Compliance Department will contact the IAR to get an explanation for his/her activity. Cross trades between an IAR and a customer are prohibited unless there is a compelling reason, the customer has received adequate disclosure that the contemplated trade is a "cross" with the IAR, the customer understands that there are significant conflicts of interest inherent in any cross, the customer has consented, and the Compliance Department has approved the arrangement in advance of execution. Such requests will be closely scrutinized.

- D. (*See* Item 10(C) above.)

**Item 12**      *Brokerage Practices*

A. National Financial Services, LLC (“NFS”), a division of Fidelity Investments, provides clearing brokerage services on both the BD and RIA segments of F&C’s business. Those services include: (i) maintaining custody of assets; (ii) serving as custodian on Individual Retirement Accounts; (iii) trade execution, processing, and confirmation; (iv) front-office and back-office systems; (v) quarterly customer billing and reporting; (vi) recordkeeping; (vii) arranging for the sending of proxy notices, class action notices, and other similar notices through an arrangement with ADP; and (viii) issuing monthly (or quarterly) customer account statements.

1. F&C does not receive research, products, services, or other “soft dollar” compensation from NFS in exchange for directing F&C’s brokerage business to NFS.
2. F&C does not receive referrals from NFS in exchange for directing F&C’s brokerage business to NFS.
3. F&C does not permit customers to direct the firm to execute transactions through a specified broker-dealer. F&C requires that all customer trades be directed to NFS because that is how F&C’s system is set up. To allow customers to direct trades to other brokerage firms would be inefficient. Furthermore, NFS provides F&C with the tools and reports required to supervise all activity directed to NFS. If customers were allowed to direct their transactions to another firm, the NFS reports would not capture that activity. NFS has a regulatory obligation to provide best execution on all trades directed to it. F&C is confident that NFS does indeed provide best execution, and regularly reviews reports that demonstrate NFS’s execution quality. However, F&C does not control NFS and cannot guarantee that NFS will be able to achieve the most favorable execution on every customer transaction.

B. Because F&C does not allow discretionary accounts, F&C does not aggregate the purchase or sale of securities for various customer accounts.

**Item 13**      *Review of Accounts*

A. F&C reviews all new accounts when they are opened to make sure that appropriate documentation has been obtained, and to verify that the proposed investment strategy is consistent with the customer’s risk profile and stated investment needs and objectives. On a daily basis, a supervisor reviews all trades in AMA and TAA accounts to confirm that the trading is consistent with the customer’s investment needs and objectives. On a quarterly basis, F&C reviews a report identifying accounts that have lost substantial value in the prior quarter. Also on a quarterly basis, with respect to AMA accounts, F&C

reviews a “drift report” which identifies accounts whose holdings have “drifted” outside the prescribed risk parameters.

B. (*See* Item 13(A) above.)

C. NFS sends the following information to all F&C advisory customers: (i) Trade confirmations on every purchase or sale of securities – on AMA and TAA accounts, these confirms are mailed after each trade is executed, while on SMA accounts, a summary of all trades is sent quarterly; (ii) Monthly account statements every month that a customer has activity in the account – if the account has no activity, the customer will receive account statements at least quarterly; and (iii) Quarterly performance reporting. It is important for the customer to compare the trade confirmations with the account statements, and compare the account statements with the quarterly performance reports, to make sure all documents are consistent. The customer should notify F&C’s Compliance Department immediately if he/she notices any inconsistencies among the various reports.

**Item 14**      *Customer Referrals and Other Compensation*

This Item is inapplicable because F&C is not compensated by anyone other than its customers for providing investment advice, F&C does not receive compensation for referring customers to other investment advisors, and F&C does not pay compensation to any person for referring customers to F&C.

**Item 15**      *Custody*

This Item is inapplicable because F&C does not have “custody” of customer funds or securities – rather, NFS maintains custody. See Item 13(C) above for a description of the information and documents that customers may expect to receive from NFS.

**Item 16**      *Investment Discretion*

This Item is inapplicable because F&C does not allow discretionary accounts.

**Item 17**     *Voting Customer Securities*

F&C does not vote proxies on behalf of customers. NFS, through an agreement with ADP, sends all proxy solicitations, class action notices, and similar notices to the customer holding the security, and it is up to the customer to vote or otherwise respond in a timely manner.

**Item 18**     *Financial Information*

- A. This Item is inapplicable because F&C does not charge advisory fees six months or more in advance.
- B. This Item is inapplicable because F&C does not exercise discretion in customer accounts, does not have custody of client funds or securities, and does not charge advisory fees six months or more in advance.
- C. This Item is inapplicable because F&C has never been the subject of any bankruptcy petition.

**Item 19**     *Requirements for State-Registered Advisors*

This Item is inapplicable because F&C is registered with the SEC.