

# HARMONY ASSET MANAGEMENT LLC

## ADV PART II BROCHURE

February 27, 2013

The business name is Harmony Asset Management LLC. The firm's principle place of business is located at:

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This brochure provides information about the qualifications and business practices of Harmony Asset Management LLC. If you have any questions about the contents of this brochure, please contact us at 480-314-5967 or [info@HarmonyAM.com](mailto:info@HarmonyAM.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 Harmony Asset Management LLC is also available on the SEC's website at [www.adviserinfo.gov](http://www.adviserinfo.gov).

### **Material Changes**

There have been no material changes in our financial condition or operating procedures.

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## Advisory Business

A. Harmony Asset Management LLC (formerly Expansion Funds America LLC) has been in business for ten years. Our sole owner is Alan Rosenfield, Managing Director. He has been a portfolio manager and the President of Harmony Asset Management LLC since 2001. Mr. Rosenfield has been in the securities industry since 1983. The firm manages investments for high-net-worth individuals and smaller pension funds, endowments, and institutions, utilizing a multi-asset-class strategy, with expertise in ETFs.

Mr. Rosenfield has been quoted numerous times in the media, most recently in *Investors Business Daily* and *BusinessWeek* on ETFs and the *Arizona Republic* on the perils of the 2010 Roth IRA conversion. He has done extensive public speaking, television, and writing on investment strategies utilizing ETFs as well as individual, public and private securities.

Highlights of Mr. Rosenfield's career include managing the Pacific Advisors Income Fund, a public mutual fund, during which Mr. Rosenfield achieved the #1 ranking in his category by Morningstar.

Earlier in his career, Mr. Rosenfield managed the High Net-Worth Group at Cantor Fitzgerald & Co., Inc., in New York reporting directly to the President Howard Lutnick and CEO Bernie Cantor. Mr. Rosenfield graduated from Washington University of St. Louis with a Bachelor of Science in 1982.

B. Harmony Asset Management LLC ("Harmony") provides portfolio management services. The firm only manages discretionary accounts and focuses on investors seeking long-term growth and/or income; the firm does not focus on or manage accounts seeking short-term trading oriented investment strategies.

Our approach is risk-averse and driven by business and economic themes. We adhere to rigorous due diligence and investment processes, focusing on the underlying economics and financial strength of each business in which we invest. We diversify by industry and asset class to offset increased volatility; this approach creates a portfolio with a lower correlation to the overall markets, and typically generates more consistent returns over longer periods of time. Our portfolios are focused around a small number of carefully selected positions, and we do not employ any leverage.

Our long-term investments strategies are based on fundamental analysis, as fundamentals inevitably drive all businesses. We utilize a number of criteria, combined in a proprietary manner. Fundamental analysis typically looks at the business in relation to that business's income, cash flow and balance sheet statements. We utilize items such as price/earnings ("P/E Ratio") and debt ratios, business margins and cash-flow generation in doing our analysis.

Harmony is a total return, multi-asset class investment advisor and therefore is never restricted to pre-determined asset classes, specific market sectors or weightings within a class. For each client's portfolio we seek to achieve superior, risk-adjusted returns that outperform the markets while employing below-average market risks. Consequently we invest across a combination of high quality asset classes including equities, fixed-income, commodities, real estate, and alternative investments.

C. Within the parameters of our investment style, as noted above, client accounts are tailored to meet the specific cash flow and growth goals of individual investors. For a new account, portfolio and account managers learn about the client's financial condition, investment goals and risk parameters. From this information, a portfolio strategy is developed, and on approval from the client, executed. Within these guidelines, we accept various client-imposed restrictions, but the Managing Director must approve them in advance before the account will be accepted.

We contact clients throughout the year and encourage investors to update us whenever there are any changes in their financial condition or any changes in their investment objectives. All accounts are managed with client objectives in mind.

D. We do not participate in any wrap fee programs

E. As of 12/31/12 we managed discretionary accounts valued at \$18,480,000 and non-discretionary accounts valued at \$3,500,000.

## **Fees and Compensation**

A. We charge an annual fee that is a percentage of assets under management. This means that we have a direct stake in the success of our investment decisions. If, as a result of our decisions, the value of a clients' account gains in value, we earn additional income. If the value of a clients' account decreases in worth, we earn less.

The annual fees are generally charged as follows: 2.00% of assets under five hundred thousand dollars, 1.75% of assets on assets between five hundred thousand and one million dollars. 1.65% on assets between one million dollars and three million dollars. Fees are negotiable for accounts greater than three million dollars. Management retains the right to negotiate fees whenever it deems reasonable.

B. Fees are payable at the beginning of each quarter in advance and are deducted directly from client accounts. The fee is calculated by adding the closing balance of the portfolio on the last day of each month in the prior quarter and dividing this sum by the number of days in the same quarter. Clients have the right to terminate the investment management contract at any time by making a request in writing. If the contract is terminated within the first two weeks the account is opened, the client will not be charged any management fee.

- C. We charge no fees other than the percentage of assets fee. Consulting with clients, providing financial advice and guidance, is considered a normal part of our service. Clients will pay brokerage commissions for trade execution and may pay an annual account fee if required by the custodian (typically for IRAs). Harmony does not share in any of these fees; they are mandatory and set by the custodian and/or broker-dealer the client chooses to use. For more information on brokerage, see Brokerage Practices on page 11.

FiBD Investments LLC, an affiliated firm, charges a management fee for management services it provides to issuing companies that clients of Harmony Asset Management may invest in. Such investment by clients is never done on a discretionary basis and investors are encouraged to review the investment with their independent advisors before investing. Harmony Asset Management does not share in the management fees charged by FiBD Investment LLC. Furthermore, funds invested in these private placement are not considered to be assets under management by Harmony Asset Management and are not charged an asset management fee by Harmony Asset Management.

- D. All fees are charged quarterly, in advance. If for any reason, a client cancels their contract prior to the end of the quarter, the fees are prorated and any excess returned.

- E. No employee receives compensation for the sale of securities or other investments, commissions, 12b-1 fees or any other remuneration of any type. The only fee Harmony or its employees receive is the quarterly management fee.

1. Harmony only receives the quarterly management fee because the goals of the client and manager are now aligned. We do not benefit from increasing the number of trades we do, nor by buying one type of investment over another.

2. Harmony is a discretionary investor; we do not recommend investments to clients. For further information on investment practices please see Brokerage Practices on page 11.

3. We do not charge commissions or receive compensation other than the annual management fee.

4. We do not charge or receive commissions or markups for any trades on behalf of clients.

### **Performance-Based Fees and Side-By-Side Management**

No member or employee of this firm accepts performance-based-fees or compensation.

### **Types of Clients**

We manage assets for high-net worth individuals, small corporations, not-for-profits institutions, associations and trusts. The firm typically requires a minimum account balance of \$500,000 to

open an account with us, however the firm retains the right to waive this minimum requirement at their discretion.

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

- A. Our long-term investments strategies are based on fundamental analysis, as fundamentals inevitably drive all businesses. We utilize a number of criteria, combined in a proprietary manner. Fundamental analysis typically looks at the business in relation to that business's income, cash flow and balance sheet statements. We utilize items such as price/earnings ("P/E Ratio") and debt ratios, business margins and cash-flow generation in doing our analysis.

Portfolios are then built based on detailed discussions with individual clients so that cash flow needs and risk parameters are suitable and reflect the client goals. Since any investment in any type of security can result in losses, we spend a great deal of time addressing risk as opposed to talking about potential gains.

Thus portfolios often utilize a combination of diversification and security weightings to help reduce the potential for losses. In addition, time is spent discussing the potential for loss and the client's ability to accept and weather such loss, not only before we first begin investing, but on an on-going basis.

- B. Long term investing is subject to market volatility just as most other investment strategies are. However, by staying focused on goals that are several years away, investors are less likely to make emotional trading decisions that a short-term trader may be subject to.

The material risks in such a strategy is primarily two-fold: 1) that the broad economic expectations upon which we base our investment decisions do not materialize as expected, impacting the industries and/or companies in which we invest in a materially adverse manner, and, 2) that events within a specific company in which we have invested unfold in a manner contrary to our projections or research. Economic, political, and social events are important to our investment decisions and will impact our clients' portfolios. It is possible that we under-estimate the impact – negative or positive – of these realities or fail to seek opportunities that in the end benefit from these occurrences.

- C. We may utilize investments in equities and fixed income securities, exchange traded funds ("ETFs") or mutual funds. While all of these securities are typically liquid (you can get your money within 3 business days typically), they may be volatile. Because day traders and high frequency traders make up such a significant part of daily trading on most exchanges, they may impact prices on securities well beyond what the basic fundamentals may suggest. In addition, unanticipated news may impact the price of these securities, either to the benefit or detriment of investors.

For investments in illiquid investments such as private placements or real estate, the fact that the investments are illiquid and thus selling the asset at the first sign of trouble may not be possible is a substantial risk. In addition, often the investor has little or no control

and thus cannot force changes when the investment has problems. To offset this risk, we keep the size of the investments small so that a loss does not have a significant impact on the investor's net worth.

## **Disciplinary Information**

- A. Criminal or Civil Action in a domestic, foreign, or military court of competent jurisdiction in which our firm or a management person
1. Neither our firm nor a management person has been convicted, pled guilty or nolo contendere to (a) any felony; (b) a misdemeanor that involved investment of an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or conspiracy to commit any of these offenses within the last ten years.
  2. Neither our firm nor a management person is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses.
  3. Neither our firm nor a management person was found to have been involved in a violation of an investment-related statute or regulation.
  4. Neither our firm nor a management person was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting our firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.
- B. In an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority
1. Neither our firm nor a management person was found to have caused an investment-related business to lose its authorization to do business.
  2. Neither our firm or a management person was found involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency authority
    - (a) denying, suspending, or revoking the authorization of our firm or a management person to act in the investment-related business;
    - (b) barring or suspending our firm's or a management person's association with an investment-related business;

- (c) otherwise significantly limiting our firm's or a management person's investment-related activities; or
  - (d) imposing a civil money penalty of more than \$2,000 on our firm or a management person.
- C. In proceedings before a self-regulatory organization (SRO) neither our firm or a management person
- 1. was found to have caused an investment-related business to lose its authorization to do business, or
  - 2. was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,000.

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

- A. No member or management person of this firm is registered or has an application pending to register, as broker-dealer or a registered representative of a broker-dealer.
- B. No member or management person of this firm is registered, nor has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity-trading advisor, or an associated person of the forgoing entities.
- C. No member or management person of this firm has any relationship with any of the following:
  - 1. broker-dealer, municipal securities dealer, or government securities dealer or broker;
  - 2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund);
  - 3. other investment adviser or financial planner;
  - 4. futures commission merchant, commodity pool operator, or commodity trading advisor;
  - 5. banking or thrift institution;
  - 6. accountant or accounting firm;

7. lawyer of law firm;
8. insurance company or agency;
9. pension consultant;
10. real estate broker or dealer;
11. sponsor or syndicator of limited partnerships.

D. We do not receive compensation directly or indirectly from investment advisors we may recommend to our clients.

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

- A. Our firm's code of ethics is embodied in a Code of Ethics Manual covering eleven topics. All members of the firm are required to read the entire manual annually. A copy of our Code of ethics is available to any client of prospective client on request.
- B. The firm does not sell securities in which it has a material interest to its clients, nor does the firm buy securities from clients for its own accounts.
- C. No employee shall recommend any securities transaction for a client without having disclosed his or her interest, if any, in such securities or the issuer thereof, including without limitation:
  1. any direct or indirect beneficial ownership of any securities of such issuer of material size;
  2. any contemplated transactions by such person in such securities of material size;
  3. any position with such issuer of its affiliates; and
  4. any present or proposed business relationship between such issuer or its affiliates and such person or any party such person has a significant interest.

Employees are not restricted from owning the same securities as clients, but must first get approval from the Chief Compliance Officer to ensure that trades are not happening for clients at the same time, and if they are, that the employee is part of a block trade so that they do not receive any special pricing benefit.

- D. When buying or selling securities for client accounts, the firm follows written guidelines which include the following:

1. Whenever beneficial to clients, trades are done as a block trade, so that all investors receive the same execution. As long as Harmony or any of its employees will not impact such a trade detrimentally, they may participate in the same block trade.
2. If Harmony or any of its employees cannot participate in the block trade, their trade will be executed after clients.

## **Brokerage Practices**

- A. We do not recommend broker-dealers for clients; accounts may be custodied by a broker-dealer of the client's choice. We have found that Fidelity Investments provides excellent custodial services that may benefit clients and keep expenses low. Fidelity provides Harmony with back office services, execution services for equities and fixed income on an international level. Fidelity provides monthly statements of account balances and all account activity directly to each client.

Private equity assets are not held by Fidelity but may be maintained in the custody of Sterling Trust. Sterling was recommended by Fidelity and is one of the few qualified organizations that will maintain private assets.

1. We do not participate in soft dollar arrangements nor do we receive any economic benefits in connection with client securities transactions. Additional research the company receives is either free of charge or we pay for in cash.
2. We do not receive client referrals from any broker-dealer.
3. Directed Brokerage
  - a. We prefer using Fidelity Investments as custodian and broker-dealer; however, clients are not required to utilize them. Fidelity provides the applicant with electronic back office expertise, a very wide choice of mutual funds, and very competitive commission rates. Utilizing a different broker-dealer may increase the costs to investors because of the lack of back office support or because commission rates may be higher.

When trades are done at more than one broker-dealers, the broker/ dealer who holds the largest amount of assets for Harmony clients will be given the trade first, then the broker-dealer with the next largest assets of Harmony clients, until all client orders have been entered.

Clients may choose to specify a broker-dealer for trading if they wish. Utilizing a different broker-dealer may increase the costs to investors because of the lack of back office support or because commission rates may be higher.

When trades are done at more than one broker-dealers, the broker/ dealer who holds the largest amount of assets for Harmony clients will be given the trade first, then the broker-dealer with the next largest assets of Harmony clients, until all client orders have been entered.

Depending on the broker-dealer the client chooses to utilize, we maintain the right to charge more than 2.00 % of the assets on an annual basis to offset any additional expenses we may incur. If so, the rate will be agreed on in writing at the time the account is opened.

- B. Whenever possible, trades are aggregated for client accounts. This ensures that all clients get equal treatment and receive the same purchase or sales price. If a trade is only partially filled, the smallest individual trades are allocated first so as to keep trading expenses as low as possible for all clients. Then accounts are allocated on a pro rata basis.

### **Review of Accounts**

- A. Portfolio managers review all accounts at least monthly. These are broad “monitoring” reviews, which keep the manager up to date on changes in market values and suitability of investment for the specific customer.
- B. Accounts are reviewed more frequently if necessary. Such reviews may be triggered by changes in the markets, price changes of specific investments or changes in customer goals.
- C. The firm provides a quarterly portfolio report (“Quarterly Portfolio Review”) to all clients organized by security type (stocks vs. bonds for example) and they by sector. Each position lists the current value and the cost basis of that position, the yield and the weighting that position holds in the portfolio. The report also provides a rate of return for the time period after fees and details out all changes in the portfolio.

### **Client Referrals and Other Compensation**

- A. We do not compensate or provide economic benefits of any kind to firms or individuals for client referrals.
- B. Neither our firm nor any related person directly or indirectly compensates any person for client referrals.

## **Custody**

Harmony does not maintain custody of client funds or securities. Client accounts are maintained by third party custodians/broker-dealers. The custodian provides monthly statements of account balances and account activity directly to each client. We recommend that clients carefully review these reports and compare them with the Quarterly Portfolio Review that Harmony provides quarterly.

## **Investment Discretion**

Harmony only accepts discretionary accounts. For a new account, portfolio and account managers learn about the client's financial condition, investment goals and risk parameters. From this information, a portfolio strategy is developed, and on approval from the client, executed.

The client signs an Investment Management Contract that lists that our authority is only extended to the purchase and sale of securities. The firm does not allow the use of leverage, nor are the firm's employees given the ability to move assets or funds for a client without prior written authority from the client. In addition, broker-dealers new account forms required the client to authorize the firm to trade on behalf of the individual and to dun the account for quarterly fees.

Clients receive both written and verbal reports throughout the year, so that they are aware of our strategies and can ask questions. This helps to assure that clients are aware of our investment strategies and those strategies can be changed or adjusted if the client feel it is necessary.

## **Voting Client Securities**

- A. We do not accept authority to vote client securities. Our Investment Management Agreements explicitly states that clients are responsible for all proxy votes.
- B. The broker-dealer Client Account Agreements state(s) that all proxies or other share voting arrangements will be mailed directly to the client. Harmony does not receive copies of this material.

## **Financial Information**

- A. We do not solicit prepayment of more that \$500 in fees per client six or more months in advance therefore no balance sheet is included in this brochure.
- B. We have discretionary trading authority over client funds, which permit us to buy and sell within individual accounts. We do not require or solicit prepayment of any fees more than six months in advance. We do not have authority to direct transfer of funds from one

client account to another, nor do we have authority to direct client funds to our accounts. This does not impair our ability to meet contractual commitments to clients.

- C. Harmony Asset Management LLC has not been the subject of a bankruptcy petition at any time during the last ten years.

### **Requirements for State-Registered Advisors**

- A. Please see “Advisory Business” on page four for details.
- B. Harmony’s only business activities are directly related to the management of client accounts.
- C. We do not charge performance-based fees.
- D. No management person associated with this firm has been involved in any of the following events:
  - 1. An award or otherwise being found liable in an arbitration claim alleging damages in excess of \$2,500 involving any of the following;
    - (a) an investment or an investment-related business activity;
    - (b) fraud, false statement(s) or omissions;
    - (c) theft, embezzlement, or other wrongful taking of property;
    - (d) bribery, forgery, counterfeiting, or extortion; or
    - (e) dishonest, unfair, or unethical practices.
  - 2. An award or otherwise being found liable in a civil, self-regulatory organization, or administrative proceeding involving any of the following:
    - (a) an investment or an investment-related business activity;
    - (b) fraud, false statement(s), or omissions;
    - (c) theft, embezzlement, or other wrongful taking of property;
    - (d) bribery, forgery, counterfeiting, or extortion; or
    - (e) dishonest, unfair, or unethical practices.

E. No member of this firm has any relationship or arrangement or agreement with any issuer of securities.