



## ***Tempo Investment Advisors, Inc. 1986***

Michigan Office:  
Desk: (989) 832-3148  
Cell: (989) 430-2795  
[www.tempo-investments.com](http://www.tempo-investments.com)

Minnesota Office:  
Desk: (952) 448-9366  
Cell: (612) 210-3353

### **SEC Part 2A of Form ADV: Firm *Brochure***

#### **Item 1 – Cover Page**

**David Romenesko, President and CIO**  
**4400 Autumn Ridge Circle South**  
**Midland, MI 48642**  
**Phone: (989) 832-3148**

**Brent Romenesko, Director and Advisor**  
**2012 Waterford Lane**  
**Chaska, MN 55318**  
**Phone: (612) 210-3353**

**Website: <http://www.tempo-investments.com>**

Information current as of March, 2013

This brochure provides information about the qualifications and business practices of Tempo Investment Advisors, Inc (a.k.a. Tempo). If you have any questions about the contents of this brochure, please contact us at a phone number above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Tempo is a registered investment advisory firm; David and Brent are registered investment advisors. This, however, does not imply a certain level of skill or training. It merely signifies that the firm and its owners are current and up-to-date with all necessary regulatory filings and fees.

Additional information about Tempo may also be found on the SEC's website: [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov)

#### **Item 2 – Material Changes**

In Q2, 2012, Tempo moved from a SEC Registered firm to a Michigan Registered firm because the SEC changed their minimum assets under management from \$25 million to \$100 million.

There have been no material changes to this brochure since the previous annual update.

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### **Item 4 – Advisory Business**

Tempo was incorporated in 1986 and the principal owner, David Romenesko, has been engaged in investment advisory services since that time. Advisory services provided to clients are investment management, and retirement readiness assessment. The types of securities that we typically manage are:

- Exchange Traded Funds
- Mutual Funds
- Limited amounts of individual stocks
- Limited amounts of bond funds

Exchange Traded Funds (ETFs) are similar to mutual funds in that they are a portfolio of individual corporate stocks and/or bonds typically focused in a specific area of the market. ETFs may also hold public debt in the form of municipal bonds, Treasury Bills, etc. Just like mutual funds, they may be as diversified as the total United States market (or even broader), or they may be as specialized as stocks in a single emerging market (India, for example). The main difference between ETFs and mutual funds is that ETFs are traded continually on the open market and have real-time values like individual stocks. Mutual funds reconcile their values after the close of the market each trading day. ETF expense ratios, the cost of holding a position in the security, are generally much lower than mutual fund expense ratios.

We also manage held-away retirement accounts, such as 401(k) accounts. We consider the investment positions in these accounts as a part of a given client's entire portfolio.

One key aspect of our investment management business is the use of stop-loss orders on most of our equity positions (which is one of the reasons we use ETFs – stop-losses may not be placed on mutual funds). The stop-loss orders are usually set at 10% lower than the purchase price and re-set every 60 days if the security has improved in value or held the same if the asset has not improved in value. Stop-loss orders take emotion out of investing and serve to indicate a significant weakening in the market. When the stop-loss orders execute we sell the positions that we've taken in mutual funds that invest in similar sectors (like those in the 401(k) accounts we manage) upon which we are unable to have stop-loss orders placed. This capital preservation strategy played out extremely well in the 2008 market in which the S&P 500 fell nearly 40%. Refer to the section entitled Methods of Analysis Investment Strategies and Risk of Loss for more information.

As of year-end 2012, Tempo has \$46.6 million of Assets Under Management (AUM). We have discretionary authority over all of our AUM. We have no non-discretionary AUM.

### **Item 5 – Fees and Compensation**

We are compensated on a fee-only basis billed for each past quarter. Clients pay us 1% of assets managed up to \$1 million. For assets beyond \$1 million we are paid 0.5%. Held-away accounts alone are invoiced at 1.50% if the client has less than \$500,000 in total assets under management. Clients choose either to have their fees deducted from their account(s) or to manually write a check for our services. Clients are not billed in advance for our services, we bill only on services performed.

Client accounts also pay for the expenses associated with owning mutual funds or ETFs. These fees go directly to the Mutual Fund Company or ETF provider; we are not involved in these fees. Clients are also responsible for paying transaction costs associated with the buying and selling of securities that we perform during the course of managing their investments. These costs go directly to the brokerage firm; we are not involved in these fees but we do initiate transactions that result in these costs for our clients. Please refer to the section where we discuss our relationship with our Broker/Dealer. Because we are long-term investors, trading is kept to a minimum. Additionally we seek high quality, low

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expense ratio investments. Both of these features are in the best interest of the client. While we use mostly ETF funds, all of the mutual funds that we invest in are no load funds.

It is important to note that we are not compensated by commission, or any other means, for the securities in which we choose to invest the assets we manage. The securities with which we choose to invest our clients' assets are based solely upon the quality of investment and risk profile of each client. As such, we have no conflicts of interest to report in this regard.

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

We do not charge performance-based fees and therefore we have no side-by-side management conflicts to discuss.

### **Item 7 – Types of Clients**

The types of clients to whom we generally provide investment advice are individuals, families and small businesses. We generally have a minimum account value not to be less than \$100,000.

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

In order to make investment decisions we closely monitor information that may materially affect the securities that we invest in. This includes domestic and global political influences, market trends and activities, and proprietary analyses performed by trusted third-party service providers.

**General Risk of Loss Statement:** Investing in the securities markets involves risk of loss that clients should be prepared to bear. While we take actions to limit loss in account values, we cannot guarantee a certain investment performance or investment loss avoidance.

As explained in the section entitled Advisory Business, we have a capital preservation strategy using stop-loss orders on our equity positions. This is primarily to provide investment loss risk reduction. There are some unique risks with this strategy.

- “Flash Crash” market disorder issues (as seen on May 6, 2010)
- Market “bounce”

The Flash Crash of May 6, 2010 was thought to have been initiated by an extreme amount of orders placed on the New York Stock Exchange (NYSE) by an institution and the result affected nearly all of the securities trading at that time in the market (details regarding this event may be found by searching “flash crash” with your favorite internet search engine). The result of assets that had stop-loss orders in place during this time was an execution of those orders. But due to the nature of this particular event, the orders were not executed at the price that was set – they were sold for a significantly lower price. This led to a significant loss of value for our client accounts. The exchange released rules in the three days after this event occurred that described the conditions for any sale that was directly due to this market instability. The vast majority of the sales and subsequent loss of value in our client accounts were “clawed back”, or in other words, voided. However, there were some instances where some security sales within our client accounts did not meet the condition that the exchange required and stood as “good” sales.

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This event highlights the fact that rare instances may result in loss of account value beyond what the stop-loss execution price is set at. We believe this risk is very low and therefore also believe that our capital preservation strategy using stop-loss orders continues to provide exceptional value to our clients.

Another risk involving our stop-loss order capital preservation strategy is if the market has a “bounce”. By bounce, we mean that the market value is broadly reduced and that results in one or more stop-loss orders to execute. But instead of the market continuing to decline the market bounces at the level that resulted in the stop-loss execution and rises in value. The result of this scenario is that the securities that were sold at the stop-loss executed price are moved to a cash position and misses out on the market gains that result from the market rising in value. This execution may also lead to an undesirable taxable event in our client accounts.

While this scenario is something that can happen from time to time, the way we mitigate this risk is to be knowledgeable about what is happening in the broader domestic and global markets and make judgments on whether or not it is reasonable to take more conservative positions for our client accounts. We believe that having capital preservation strategies in place is preferable even with the risk of losing out on some market gains. The peace-of-mind our clients experience with the understanding that we are working to protect their investment from significant loss is well worth the risks that come with this strategy.

### **Item 9 – Disciplinary Information**

There are no disciplinary actions, past or pending, to report. To monitor our firm and any other Investment Advisory Firm, please click on the link below:

[http://www.adviserinfo.sec.gov/\(S\(vbe4he55a5z3ky5552lrphfb\)\)/IAPD/Content/Search/iapd\\_Search.aspx](http://www.adviserinfo.sec.gov/(S(vbe4he55a5z3ky5552lrphfb))/IAPD/Content/Search/iapd_Search.aspx)

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

We have no other financial industry activities or affiliations to report that are material to this advisory business

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

We have adopted a code of ethics that addresses our interaction with clients and certain business practices that are designed to safeguard client data and communication, among other things. This code of ethics is available on our company website <http://www.tempo-investments.com/> in the policies link at the bottom of the Home Page and accessible at any time when an internet connection is accessible. If the reader would like a hard-copy of the code of ethics, we will provide that upon request.

There are a few points that we'd like to highlight that are also addressed in our code of ethics:

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- We personally invest in the same securities held in client accounts
- We conduct personal transactions on securities around the same time as our client accounts

The two points mentioned above are related. We invest in the same securities as our clients and we make transactions in our personal investment accounts around the same time as we conduct transactions in our client accounts. The conflict that can arise from this activity surrounds the timing that our personal accounts are traded relative to our client accounts. If we personally purchase a security prior to our clients' purchases then, due to the increased demand of that security based on our client purchase orders, the security's value could increase. Therefore our account would show an unrealized gain solely based upon the fact that we purchased ahead of our clients. This practice is called "front running" and is illegal. It also violates our fiduciary responsibility to our clients; we must put client interests ahead of our own. However, the number of shares that we may trade at any one time is generally not large enough to affect the market in a way that we would even be able to gain from front running our client transactions.

When we place block trades, and any trades that involve personal accounts, we either have our orders in the same block as our clients or we make trades after our client transactions are complete. The latter practice is termed "tailgating" and is completely legal. Both scenarios do not result in any predictable favorable pricing between our personal accounts and those of our clients.

## **Item 12 – Brokerage Practices**

Tempo does not maintain custody of client assets that we manage. Assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab holds client assets in a brokerage account and buys and sells securities based on our instructions. While we recommend that clients use Schwab as custodian/broker, clients will decide whether to do so and will open accounts with Schwab by entering into an account agreement directly with them. We do not open the account for clients, although we may assist them in doing so. Even though client accounts are maintained at Schwab, we can still use other brokers to execute trades for client accounts as described below (see "Your Brokerage and Custody Costs").

### **How We Select Brokers/Custodians**

We seek to recommend a custodian/broker who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear and settle trades
- Capability to facilitate transfers and payments to and from accounts
- Breadth of available investment products (stocks, bonds, mutual funds, ETFs, etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services and willingness to negotiate the prices
- Reputation, financial strength and stability
- Prior service to us and our clients

### **Brokerage and Custody Costs**

For our clients' accounts that Schwab maintains, Schwab generally does not charge clients separately for custody services but is compensated by charging clients commissions or other fees on trades that it executes or that settle into client Schwab accounts. Schwab's asset-based fees applicable to our client accounts were negotiated based on the condition that our Firm's clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. This commitment benefits

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you because the overall asset-based fees you pay are lower than they would be otherwise. In addition to asset-based fees, Schwab charges clients a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into client Schwab account. These fees are in addition to the commissions or other compensation clients pay the executing broker-dealer. Because of this, in order to minimize client trading costs, we have Schwab execute most trades for all accounts. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “*How We Select Brokers/Custodians*”).

### **Products and Services Available to Us from Schwab**

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab’s business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts; while others help us manage and grow our business. Schwab’s support services generally are available on an unsolicited basis (we don’t have to request them) and at no charge to us as long as our Firm’s clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab’s support services:

### **Services That Benefit Our Clients**

Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab’s services described in this paragraph generally benefit clients or their account.

### **Services That May Not Directly Benefit Clients**

Schwab also makes available to us other products and services that benefit us but may not directly benefit clients or their account. These products and services assist us in managing and administering our clients’ accounts. They include investment research, both Schwab’s own and that of third parties. We may use this research to service all or a substantial number of our clients’ accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients’ accounts
- Assist with back-office functions, recordkeeping, and client reporting

### **Services That Generally Benefit Only Us**

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

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

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

### **Our Interest in Schwab’s Services**

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The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our Firm's clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to recommend that clients maintain an account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on clients' interest in receiving the best value in custody services and the most favorable execution of their transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How We Select Brokers/Custodians") and not Schwab's services that benefit only us. We have \$46.6 million in client assets under management, and we do not believe that recommending our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

### **Item 13 – Review of Accounts**

Tempo performs a periodic review of specific client accounts on a quarterly basis. Financial and retirement plans are reviewed with the client annually, or more frequently, if requested. Client securities holdings are reviewed weekly by both investment managers (David and Brent Romenesko) to determine if the securities are meeting performance requirements. If those securities do not meet the performance requirements then client accounts are adjusted accordingly.

The firm provides quarterly reports that describes past market activity and what is expected to occur in the market in the near future. These are electronically written reports that accompany quarterly invoices. The invoices contain individualized portfolio performance values that are compared to common benchmarks, like the Standard and Poors 500, the Dow Jones Industrial Average, the NASDAQ and the Russell 2000.

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

Tempo does not compensate any third party in any way to refer prospective clients to us.

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (see *Item 12 – Brokerage Practices*). The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

### **Item 15 – Custody**

Under government regulations, we are not deemed to have custody of client assets except for management fee deductions authorized by clients. The Schwab Compliance Department monitors management fee deductions and contacts the advisor should there be any unusual deductions. Schwab maintains custody of client assets. Clients receive account statements directly from Schwab at least quarterly. They are sent to the email or postal mailing address provided to Schwab. Clients should carefully review those statements promptly when they receive them. We also urge clients to compare Schwab's account statements to the quarterly performance reports they receive from Tempo.

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### **Item 16 – Investment Discretion**

Tempo requires discretionary authority to manage securities accounts on behalf of clients. Clients must execute a power of attorney to grant this authority to Tempo. This discretionary authority allows the firm to act on behalf of our clients in ordering the purchase and sale of securities and disbursement of account funds to the account holder and only to the account holder.

### **Item 17 – Voting Client Securities**

Tempo does not have authority to vote client securities. Clients receive their proxies or other solicitations directly from their custodian or a transfer agent. Clients may, and are encouraged to, seek advice from us about any solicitation that they receive if they are not knowledgeable about the information.

### **Item 18 – Financial Information**

Tempo does not require or solicit prepayment of any amount from our clients. Also, the company, in its history, has not been the subject of a bankruptcy petition or proceedings. Therefore, Tempo is not required to provide a balance sheet to clients or prospective clients.

### **Item 19 – Requirements for State-Registered Advisers**

#### **Formal Education of Officers and Management of the Firm**

##### **David Romenesko, President and CIO, Compliance Officer, Director**

Bachelor of Science in Chemistry, University of Wisconsin – LaCrosse; 1971

Masters of Science in Physical Chemistry, University of Michigan, 1974

Series 65 – Uniform Investment Adviser Law Examination; 2006, 2011

Investment management is David's full time job. A minor component of his professional life revolves around his past profession as a Silicone Scientist. His consultation is less than 5% of an average work-week focused mainly in plastics.

##### **Brent Romenesko, Investment Advisor, Director**

Bachelor of Science in Materials and Metallurgical Engineering, Michigan Technological University; 2001

Masters of Business Administration – Finance, University of St. Thomas (St. Paul, MN); 2011



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### Revision History

Original March 2011

Reviewed February 2012 with no significant changes

Minor changes in June 2012 with SEC to State registration

Reviewed March 2013 with no significant changes

Minor changes to wording suggested by Michigan Examiner audit April 2013