



**MAKROD INVESTMENT ASSOCIATES, INC.**

## **Firm Brochure**

March 31, 2020

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This brochure provides information about the qualifications and business practices of Makrod Investment Associates. If you have any questions about the contents of this brochure, please contact us at 973.239.1033 and/or kodonnell@makrod.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any other state securities authority.

Additional information about Makrod Investment Associates also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

There have been no material changes since the last annual update of the Makrod brochure on March 28, 2019.

**Item 3: Table of Contents**

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

##### **A. Description of Advisory Business**

Makrod Investment Associates, Inc. (“Makrod” or the “Company”) is an investment advisory firm based in Verona, New Jersey. Makrod provides non-discretionary investment advisory services to clients who include high net worth individuals, pension and profit sharing plans, individuals, trusts and charitable organizations. Makrod has been in business since 1974. The Company is 100% owned by John T. O’Donnell. Mr. O’Donnell’s daughter, Kathryn O’Donnell, and her husband, Benedict Schlatter, serve as investment advisors.

##### **B. Types of Advisory Services Makrod Offers**

Makrod provides investment advisory services to clients through separately managed accounts generally on a non-discretionary basis. Makrod’s clients (“Clients”) are charged fee rates based upon a percentage of their assets under management. Makrod provides recommendations on long term investments in equities as well as on fixed income investments using fundamental analysis and a value based approach. The investments are intended to be tailored to the needs of the clients. Generally speaking, Makrod constructs portfolios around three types of investments: equities, fixed income and cash/money market funds, though from time to time Makrod will provide advice on other types of investments, such as limited partnerships, mutual funds, certificates of deposit, etc.

Within equity securities, Makrod primarily favors investments in blue chip listed securities paying dividends using a long term purchase strategy (holding for greater than one year). Makrod also provides advice on fixed income securities, primarily investment grade. Within fixed income, Makrod provides advice on United States government securities (such as U.S. Treasuries), municipals bonds and corporate bonds.

Makrod recommends an investment strategy rather than a trading strategy: equity investments are generally recommended as long term purchases (the securities should be held at least a year) and bond investments are recommended to be held to maturity. Nevertheless, from time to time Makrod may recommend that these securities be sold sooner than anticipated due to unforeseen events (e.g., recommending that securities be sold within a year of purchase). Makrod does not generally broker life insurance nor use options or futures as an investment strategy unless requested by the Client.

##### **C. Tailoring of Advisory Services**

Makrod tailors the advisory services to the individual needs of Clients by recommending investments to Clients on a non-discretionary basis and by discussing potential investment decisions with each Client. The Clients sign a limited power of attorney with their custodians/broker-dealers allowing Makrod to place trades in the Clients’ accounts, and Makrod contacts the Clients for their authorization to place trades. Clients may impose restrictions on investing in certain securities or types of securities by modifying the recommended investments as they see fit. Clients may request that Makrod purchase or

sell specific securities for their accounts which Makrod would not otherwise recommend and Makrod will place trades for those Clients according to the Clients' instructions.

**D. Wrap Fee Programs**

Makrod does not participate in any wrap fee programs.

**E. Discretionary and Non Discretionary Asset Management**

As of March 23, 2020, Makrod manages zero dollars on a discretionary basis and \$481,461,220 a non-discretionary basis.

**Item 5: Fees and Compensation**

**A. How Makrod Is Compensated**

Makrod is compensated for its advisory services by a percentage of assets under management. Though the fee is negotiable, the standard fee schedule is as follows:

- 1% of the first \$1,000,000
- $\frac{3}{4}$  of 1% of the next \$1,000,000
- .6 of 1% of the next \$3,000,000
- .45 of 1% of the balance

**B. Fee Deduction or Direct Billing**

Makrod deducts fees from Clients' accounts or bills Clients for fees incurred. The Clients may select either method. Clients generally have fees deducted and are billed semi-annually; however, some have requested to pay the bill directly and/or have quarterly billing.

**C. Other Types of Fees**

Clients generally also pay fees to their qualified custodian such as brokerage and other transaction costs and should review the section(s) of this brochure that discusses brokerage. These costs may include, but are not limited to, brokerage commissions on trading, costs for wire transfers or overnight mail of funds, check printing fees, account maintenance fees, etc. Additionally, as part of our investment advisory services to you, we may invest, or recommend you invest, in mutual funds and/or exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. Please see discussions of brokerage under Item 12 beginning on Page 9 to fully understand the total cost you will incur.

**D. Pre-payment of Fees and Refunds**

Clients generally pay fees in advance although a Client may request to pay at the end of the billing cycle. For purposes of calculating the fee the value is based on the Client's custodian report. Fees are generally paid five months in advance for a semi-annual billing cycle. In

practice, this means that if a Client is billed in the month of January, that bill covers the management period of December to May and is based on the November 30<sup>th</sup> market value. On a quarterly billing cycle fees are generally paid two months in advance.

If the advisory contract is terminated before the end of the billing period, a Client will obtain a refund of a pre-paid fee. Makrod will determine the amount of the refund by calculating back to the date of the end of the termination of the advisory relationship and will refund the unused portion of the advisory fee.

#### **E. Compensation for the Sale of Securities**

Makrod and its supervised persons are not compensated for the sales of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Makrod does not charge performance-based fees.

#### **Item 7: Types of Clients**

Makrod provides advisory services to high net worth individuals, individuals, pension and profit sharing plans, trusts and charitable organizations. Makrod prefers that new accounts (i.e. new client relationships) have a minimum size of \$500,000; however, exceptions are made for referrals from existing clients.

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

##### **A. Methods of Analysis & Investment Strategies**

Makrod specializes in long term investing using fundamental analysis. Makrod primarily tailors portfolios around equities, fixed income, and cash/money market funds using a long term strategy. Makrod uses sources of information such as company press releases, annual reports, prospectuses, and filings with the Securities and Exchange Commission, corporate rating services, financial newspapers and magazines, etc. to analyze securities.

The investment strategy for equities primarily involves the long term purchases of securities (held at least a year) which Makrod believes are undervalued and offer the potential for appreciation and/or an attractive yield. In general, the strategy is value based. In the fixed income area, Makrod typically recommends that investments be held by Clients for the long-term and/or until maturation; however, depending on the circumstances, Makrod may recommend selling fixed income investments before they have been held for one year. As detailed below, investing in securities involves the risk of loss that clients should be prepared to bear.

**B. Material Risks of Analysis & Strategies**

It is important to note that in any investment one should be prepared for the risk of loss of capital. In longer term investing a risk is that the expected growth projections may not materialize as expected. It is possible that the overall stock market can decline, bringing down the value of securities, and/or the prices of individual securities decline due to underperformance within those particular securities. In both cases the value of the assets under management can decline. Value oriented investment strategies are subject to the risk that securities believed to be undervalued do not appreciate in value as anticipated.

**C. Material Risks of Recommended Securities**

Makrod primarily recommends equities and fixed income securities to clients. The following is a discussion of the material risks involved in each.

Equity purchasers are subject to risk. The risk of investing in equities involves the risk that the price of the equity will decline in value and the client will suffer a loss.

Stock markets are volatile. The price of equity securities fluctuates based on changes in a company's financial condition and a myriad of market and economic conditions. External events may negatively affect the value of a specific company and the client's holdings.

Similarly, fixed income purchasers face the following risks when investing: interest rate risk, inflation risk, financial risk and liquidity risk.

**Interest-Rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

**Inflation Risk:** Inflation has a corrosive effect on purchasing power. When inflation is present, a dollar today is worth more than a dollar next year, because purchasing power is eroding at the rate of inflation. Inflation lowers the real value of future fixed cash flows, such as a fixed payment on a bond. The anticipation of inflation, or higher inflation, may depress prices immediately.

**Financial Risk:** Excessive borrowing to finance a business' operations increases the risks regarding profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value. This may cause default, in which case the client may lose the value of their investment.

**Liquidity risk:** There may not be a continuous secondary market for a bond so that the investor may not be able to re-sell the bond at or near a fair price if he elects not to hold it until maturity.

### **Item 9: Disciplinary Information**

Makrod has no disciplinary events to report.

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

Makrod has no other financial industry activities and affiliations so this item is not applicable to Makrod.

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

#### **A. Description of Code of Ethics**

Makrod's Code of Ethics (the "Code") was adopted pursuant to SEC 204 A-1. The Code states that Makrod is a fiduciary for its Clients. Therefore, Makrod and its employees, in addition to complying with the applicable federal and state securities laws, must act in the Clients' best interests. The Code requires that employees act with duty, integrity, propriety, protection and confidence regarding Clients and Client information. All employees must certify annually that they have read, agreed to and understood the Code and must provide an annual securities holding report. Pursuant to the Code, all employees must conduct their personal securities transactions in a manner consistent with the Code and seek to avoid any conflict of interest. All employees must comply with Makrod's policies and procedures regarding personal securities transactions, including but not limited to the provisions requiring the pre-clearance by the Chief Compliance Officer before any participation in Initial Public Offerings (IPOs) or Limited or Private Offerings, and periodic reporting requirements. Makrod will provide a copy of the Code to any client or prospective client upon request.

#### **B. Securities with a Material Financial Interest**

Neither Makrod nor a related person recommends to clients, or buys and sells for client accounts, securities in which we have a material financial interest, except as described below in Section C regarding investing in the same securities it recommends to clients.

#### **C. Investing in the Same Securities as Clients**

Makrod or a related person invests in the same securities that Makrod or a related person recommends to clients. Makrod often recommends to clients the same securities which advisory representatives own personally. The following is a discussion of Makrod's practice and of the conflicts of interest this presents and generally how Makrod addresses the conflicts that arise in connection with personal trading. Broadly speaking, each person employed by Makrod is required to maintain a standard of conduct in effecting securities transactions that avoids both the reality and the appearance of gaining personal advantage at the expense of any third party, including clients.

Under the Makrod Personal Securities Trading Policy, all employees must complete an annual report of their securities holdings. Moreover, they must complete a Quarterly

Compliance Certificate within 30 days after the close of the calendar quarter. This certificate indicates whether the employee has engaged in any personal securities trading during the quarter. If an individual has engaged in a personal securities transaction, that individual must also provide a Quarterly Securities Transaction Report within thirty days after the last day of the quarter. The independent firm of Quinn & Quinn, CPAs, has been retained to review employees' personal trading. Quinn & Quinn examines Makrod's Clients' trades against Makrod's employees' trades, and submits a quarterly report to Makrod if it finds violations. Employees are prohibited from participating in an initial public offering (IPO) or limited or private placement without the pre-approval of such participation by the Chief Compliance Officer, and from trading in the same security on the same day as a client when making new securities recommendations or reviving previously made securities recommendations. Exceptions to the latter policy may be made by the Chief Compliance Officer if a request is made by an employee in advance. If an exception is made to allow an employee to trade in a manner that is simultaneous or contemporaneous with a Client, then the Chief Compliance Officer will draft a memorandum documenting the reasons for the exception and the steps taken to ensure that Clients' best interests would not be negatively affected.

**D. Trading in the Same Securities at the Same Time as Clients**

It is prohibited for Makrod employees to trade in the same securities that they recommend to Clients, on the same day as the Clients, without a pre-approved written exception from the Chief Compliance Officer. If Makrod or a related person is permitted to recommend securities to clients, or buys or sells securities for client accounts, on the same day that Makrod or a related person buys or sells the same securities for its own (or the related person's own) account, the Chief Compliance Officer will draft a memorandum that documents the reasons for the exception to the Company's policy and the steps taken to ensure that Clients' best interests would not be negatively affected.

The memorandum would be drafted to analyze, for example, whether the security is a large cap, mid cap or small cap holding; the daily volume of the security; the size of the trade in comparison to the daily volume in the security; whether the trading could benefit the adviser versus the Client, and whether the trading by the advisory representative would impede the Client from receiving best execution which could include factors such as price per share; the opportunity to get a better price than what is currently quoted, lack of trade errors, quality service, etc.. The independent CPA firm of Quinn & Quinn would compare the client trade versus the employee's potential trade and make a determination as to whether the employee trade would likely impede the Client's ability to get best execution.

**Item 12: Brokerage Practices**

**A. Factors Considered in Selecting Broker-Dealers**

In recommending broker-dealers for client transactions, Makrod typically suggests three major broker dealers: Charles Schwab ("Schwab"), Merrill Lynch, and Morgan Stanley. We recommend these firms because we believe they have client service teams that provide

best execution for Clients. We believe that they have quality client service ability and reasonable fees. Makrod ensures best execution for Client trades by evaluating the reasonableness of the respective broker-dealers' compensation by comparing cents per share, but also by looking at the qualitative level of their execution, including client service. Makrod believes that each of these firms provides our Clients with best execution, meaning that the Clients achieve trade execution in which the Clients' total cost or proceeds in each transaction is the most favorable under the circumstances. Makrod examines the overall, "all-in" cost of the trade or proceeds received, including factors like expediency, ability to aggregate, price per share, customer service, etc. so that best execution can maximize the Client's total portfolio value.

1. Research and Other Soft Dollar Benefits: Makrod receives research and other products or services other than execution from two broker-dealers in connection with Client securities transactions ("soft dollar benefits"). The following is a discussion of the conflict of interest this creates and Makrod's practices to mitigate those conflicts.

For Clients who use Schwab, Makrod receives Schwab products and services that assist Makrod in administering Clients' accounts, such as access to the Schwab website. This technology provides on-line access to web trading, client account data, statements, client tax reports, etc., among other services. The website also enables Makrod to access research from third party research providers, as well as proprietary Schwab research.

Makrod also receives products and services from Morgan Stanley and Merrill Lynch that similarly provide on-line access to client account data, including market values, account statements, trade confirmations, tax reports, etc. Makrod also is able to access proprietary Morgan Stanley and Merrill Lynch research reports and research from independent research providers using this website.

Because of the concern that access to these websites provides a conflict of interest that incentivizes Makrod to place client accounts at Morgan Stanley or Schwab instead of at another broker, Makrod purchases a license to use the Advent custodial software system and receives a daily download into Advent of account data from all broker-dealers with which trades are placed on behalf of Makrod's Clients. This allows Makrod to see client account data as of the prior day's close so that Makrod representatives have similar client data regardless of broker dealers and do not have greater information from broker dealers with whom Makrod has an institutional relationship versus more limited information on client accounts who have directed brokerage to institutions that do not give advisers website access. The Advent system makes Makrod less reliant on broker-dealer websites for Client account information and to equalize the online benefits and accessibility of accounts across broker-dealers.

Makrod Investment Associates, Inc.

- a. When Makrod uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Makrod receives a benefit because it does not have to produce or pay for the research, products or services.
  - b. Makrod may have an incentive to select or recommend a broker-dealer based on Makrod's interest in receiving the research or other products or services, rather than on our Clients' interest in receiving most favorable execution.
  - c. In the instances where Makrod trades through Morgan Stanley, Merrill Lynch or Schwab on behalf of its Clients, Clients may pay commissions (or markups or markdowns) higher than those charged by other broker-dealers because Makrod believes that Morgan Stanley and Schwab provide best execution based on factors not limited to execution price.
  - d. Makrod uses soft dollar benefits from the broker-dealers it recommends to service all of its Clients' accounts who are custodied at the respective firms: the websites it is able to access from Schwab and Morgan Stanley provide reporting data on all of the Clients who custody at Schwab and Morgan Stanley.
  - e. Makrod and its related persons received access to the Schwab and Morgan Stanley websites with Client brokerage commissions within our last fiscal year. These websites give access to proprietary research (i.e. Schwab, Merrill Lynch and Morgan Stanley research), third party research (i.e. Standard and Poor's, Argus, etc.) as well as access to account data.
  - f. During the last fiscal year Makrod directed client transactions to particular broker-dealers in return for soft dollar benefits. Makrod provided clients with names of preferred broker dealers for the client to choose. Makrod maintained existing relationships at Schwab and Morgan Stanley, so Makrod believes that any new clients who opted to use Morgan Stanley or Charles Schwab did not change or enlarge our soft dollar arrangements.
2. Brokerage for Client Referrals – When selecting or recommending broker-dealers, neither Makrod nor a related person considers whether it receives client referrals from a broker-dealer or third party since Makrod does not receive client referrals from broker-dealers or third parties.
3. Directed Brokerage
- a. Makrod does not require that a Client direct Makrod to execute transactions through a specified broker-dealer and in practice clients have selected brokers not otherwise recommended by Makrod.
  - b. Makrod permits a Client to direct brokerage. The selection of the broker is the decision of the Client and in practice Clients have opted to use brokerage firms with which Makrod has no other relationships. Clients have elected to use their own brokers because they have a relationship with a particular brokerage firm or because their employer has a direct payroll deposit into accounts at those brokers. In these situations, Makrod may be unable to achieve most favorable execution of Client transactions and directing brokerage may cost Clients more money. For example, in a directed brokerage account the Client may pay higher brokerage commissions

because Makrod may not be able to aggregate orders to reduce transaction costs, or the Client may receive less favorable prices than would have been possible with another broker. Clients may also be unable to receive the same quality of service at a directed broker than at a broker with which Makrod has frequent contact.

**B. Aggregating Purchase and Sale Orders**

Makrod may aggregate the purchase or sale of securities for various accounts when the Clients are related. Makrod does not otherwise aggregate orders when it has the opportunity to do so. While this may negatively affect Client costs in terms of price per share or commission, Makrod believes that since its Clients have discretion, each account should be treated separately and each trade should be placed after speaking with the Client rather than waiting to speak to other Clients and aggregating orders thereafter.

**Item 13: Review of Accounts**

**A. Frequency and Nature of a Periodic Review**

Makrod informally reviews Client accounts and securities invested in Client accounts on an ongoing basis. Accounts are formally reviewed approximately on a bimonthly basis. The nature of the review is to, among other areas, examine the securities in each portfolio and to identify whether they are performing as expected, to determine there is sufficient cash to satisfy a monthly distribution, to identify whether additional investments should be proposed for the cash on hand, to decide if certain securities should be recommended for sale, etc. The investment advisors (John T. O'Donnell, Kathryn R. O'Donnell, and Benedict Schlatter) review accounts.

**B. Factors Triggering a Non-Periodic Review**

Factors such as extraordinary market conditions or specific client requests could trigger a non-periodic review.

**C. Reports Provided to Clients**

Makrod provides reports to Clients regarding their accounts every six months. Makrod prepares a formal written portfolio review [of Client accounts] every six months listing cost, market value, estimated income per year, and total portfolio growth of account to date. Realized gains and losses are also tracked in the Makrod semi-annual report. Clients should also receive monthly written reports of assets from their custodians via custodial brokerage statements. Makrod sends Clients written communications in the mail or via e-mail on a periodic basis on investment seminars attended, analyst meetings attended, updates on news regarding securities they own, and on general business items. Clients' accounts are also reviewed via telephone conversations and personal meetings between our staff and Clients.

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

This item is not applicable to Makrod.

**Item 15: Custody**

Makrod has custody of client funds or securities through its ability to deduct fees from Client accounts. Clients' respective qualified custodians directly send monthly statements to Makrod's Clients. Clients will receive account statements from their broker-dealer or other qualified custodian and Clients should carefully review those statements. While Clients do not receive account statements from Makrod, Clients receive a semi-annual portfolio review from Makrod which includes a copy of the custodian's statement. The Clients are advised to compare the figures in the Makrod review with the numbers on the monthly statement from the qualified custodian.

**Item 16: Investment Discretion**

Makrod does not accept discretionary authority to manage securities accounts on behalf of Clients.

**Item 17: Voting Client Securities**

**A. Authority to Vote Client Securities**

Makrod does not have nor will it accept authority to vote Client securities.

**B. No Authority to Vote Client Securities**

Makrod does not have authority to vote Client securities. Clients should receive their proxies or other solicitations directly from their custodian. If Clients have questions about a particular solicitation they can contact Makrod via telephone, email, regular mail, etc. with questions on the issue.

**Item 18: Financial Information**

Makrod does not currently face a financial condition that is reasonably likely to impair its ability to meet contractual commitments to Clients.

**Item 19: Requirements for State-Registered Advisers**

This item is not applicable to Makrod as Makrod is a federally-registered investment adviser.