PMA PRUDENT MANAGEMENT ASSOCIATES

ADV Part 2A
Firm Brochure

Item 1 – Cover Page

March 29, 2018

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This brochure provides information about the qualifications and business practices of Prudent Management Associates.

If you have any questions about the contents of this brochure, please contact Fred Snitzer at 215-994-1062 or at pma@prudentmanagement.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 Prudent Management Associates also is available on the SEC's web-site at www.adviserinfo.sec.gov.

Prudent Management Associates is a registered investment adviser with the Securities and Exchange Commission (SEC). Registration with the SEC does not imply a certain level of skill or training.

Item 2 – Material Changes

The SEC requires registered investment advisers to identify and discuss any material changes made to an adviser's ADV Part 2A (this brochure) from the prior year.

There were no material changes since the filing of Prudent Management Associate's last annual amendment to its ADV Part 2A on March 29, 2017.

Item 3 – Table of Contents[1]

[1] The Items set forth in the Table of Contents are required by the SEC.

Item 4 – Advisory Business

Prudent Management Associates (also referred to as "PMA") is a registered investment adviser formed in 1982 by Edward L. Snitzer, a Philadelphia-based businessman and attorney, and Dr. Marshall E. Blume, a Professor Emeritus of Finance at the Wharton School at the University of Pennsylvania.

PMA uses the same sophisticated manager selection and asset allocation process used by the largest and most sophisticated institutional investors, but makes them available to smaller investors. We have a long-term record of thirty-five years of consistent investment performance, a coherent and intellectually sound investment process rooted in the principles of modern portfolio theory, and a rigorous process of evaluating, selecting, and monitoring the managers we use to construct portfolios.

Prudent Management Associates invests exclusively through low-cost, low-turnover, no-load mutual funds that have a proven track record, management stability, deep experience, and a consistent investment philosophy. PMA uses these mutual funds to build carefully constructed risk-controlled portfolios, designed to provide downside protection during bear markets while still participating in up markets.

We are conservative and risk-averse. We do not chase trends. We do not invest in individual stocks or bonds, derivatives, currencies, commodities, options, real estate, hedge funds, private equity, or any type of alternative investments. We invest only in low-cost, no-load mutual funds, across a broad range of categories: small, mid, large, value, growth, and blend. We do not invest in sector funds. Within the bond portion of our clients' portfolios, we invest in short-term and intermediate term bond funds. We also may invest a small percentage of our bond portfolio in high-yield bonds when market conditions warrant.

PMA combines the role of the consultant and the money manager into one firm, evaluating mutual fund managers and constructing highly diversified portfolios from the managers that pass the firm's screen. PMA carefully monitors the volatility of the financial markets for excessive exuberance or pessimism, tracks the changing correlations between asset categories, and adjusts the client's portfolios accordingly.

With PMA, clients only have to make one fundamental decision: what level of risk is one comfortable taking. After clients have decided, the firm will invest client assets in one of PMA's carefully constructed risk-controlled investment portfolios. Clients are mailed a monthly market value statement that shows the breakdown of their portfolio by fund. On a quarterly basis, clients are mailed a performance report and transaction report.

PMA is a unique, niche organization. In using only no-load mutual funds, the firm is completely independent of the funds it chooses, and is compensated only by the client.

PMA offers four basic portfolios to its clients: a Small, a Moderate, a Substantial and an All-Equity, Risk Portfolios. Each portfolio's risk is a function of its asset allocation – the percentage of the portfolio invested in stock equity funds, and the percentage invested in bond funds. However, PMA knows that every investor is unique, and is willing to tailor its four portfolios to meet the needs of a specific client. We work closely with each client to define its current needs and long-term goals. We guide both individual and institutional clients as they make their key decision: the level of risk they need to assume in order to achieve their financial objectives. Although we do not recommend it, clients may, if they wish, request that PMA not use specific mutual funds.

As of January 8, 2018, PMA manages $1,087,048,557 in discretionary assets.

The principal owners of the firm are Keystone Development Services, Inc., Marshall Blume Associates, Inc., and Kantwell Partners, LLC. As previously disclosed in PMA's ADV Part 2A brochures, in December 2011, Andrew, Paul and Fred Snitzer, and Barbara Snitzer Solit, became indirect owners of Prudent Management Associates, as defined by Schedule B of ADV Part 1 (as a result of their purchase of the voting shares of Keystone Development Services, Inc.), and as such are listed in the ADV Part 1's Schedule. No change in the management of Prudent Management Associates by Edward L. Snitzer has occurred as a result.

Item 5 – Fees and Compensation

Prudent Management Associates' management fee is based upon a percentage of the market value of assets under management on the last business day of the previous quarter at the following annual defined rates:

.75% on the first $1 million dollars
.65% on the next $4 million
.50% of any amount thereafter
Minimum annual fee is $7,500

The investment advisory fee is payable quarterly in advance. PMA typically deducts fees from client assets but when requested will send an invoice to clients for its services.

PMA has replaced State Street Bank as the custodian of client assets and the executor of transactions for all client accounts. State Street had charged a fee for this service of 3.5 basis points per year, charged as a percentage of the client's total assets. The new custodian for most PMA clients, entities owned by Fidelity Investments, charge a maximum custody fee of 3.75 bps per year, however, about 15% of PMA selected mutual funds are not subject to this fee; therefore, it is our expectation that the actual fee charged will be in the range of 3 to 3.5 bps. This fee is processed by Fidelity on a quarterly basis and will not be included as part of the bill that PMA sends to its clients.

Therefore, a client's advisory fee is the sum of the PMA fee and the custodian fee.

PMA clients also bear a proportionate share of the operating expenses of the no-load mutual funds (see Item 8) in their portfolios. Mutual fund expenses are netted out of the funds' returns and do not result in a deduction from the client account. As of December 31, 2017, the average asset weighted expenses of all funds in PMA portfolios was 38 basis points.

Clients may also incur fees related to wire transfers, but these fees are generally rare and insignificant.

PMA generally requires a client to have a minimum of $1 million in investable assets under PMA's management and generally charges a minimum annual fee of $7,500. PMA, in its sole discretion, may require a lesser minimum, reduce its minimum annual fee and/or charge or negotiate a lesser investment management fee based upon certain criteria (i.e. charitable institutions, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.)

The Investment Advisory Agreement between PMA and the client may be terminated by either party upon thirty days written notice. Upon termination, PMA shall refund to the client the pro-rated remaining balance (if any) of the client's quarterly investment management fee.

PMA is not compensated by any fund manager with which it does business. PMA does not receive 12b1 fees. Since PMA only invests in mutual funds and not individual securities, it does not have to negotiate fees with broker-dealers and does not have any conflicts associated with soft dollar arrangements.

PMA is an independent firm with no allegiances to any mutual fund family. PMA has no compensatory arrangement with any mutual fund family that would cause us to direct client's assets to a particular fund family.

Item 6 – Performance-Based Fees and Side-by-Side Management

Prudent Management Associates does not offer or accept a performance based fee. All fees are based on a percentage of assets under management.

Item 7 – Types of Clients

Prudent Management Associates provides portfolio management services to high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, and endowments.

See Item 5 for a full explanation of fees and costs.

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

PMA's investment process involves two main functions: 1) the selection of mutual fund managers and 2) the creation and monitoring of the client portfolio, using the selected mutual funds.

PMA invests the assets of its clients exclusively in well-diversified, low-cost, highly-liquid no-load mutual funds. We do not invest in individual securities. We do not invest in alternative investments like hedge funds, private equity, sector funds, or real assets like gold, timber, or real estate (although some of our fund managers may purchase REITS (Real Estate Investment Trusts) or commodity companies). We do not invest in derivatives, futures, currencies, or other exotic and highly risky types of investments.

We do our best to control risk by carefully selecting the fund managers with whom we partner, diversifying over many asset classes (short and intermediate fixed income; large, mid, and small-cap funds; growth, blend, and value funds; domestic and international funds), monitoring the conditions of the economic and financial markets, and rebalancing or adjusting our model allocations.

Though one of the main goals of PMA is to reduce the risk of each client as much as possible, PMA is still investing in the securities market in both stocks and bond mutual funds, both of which will always involve the risk of loss for the client. Performance cannot be guaranteed and client accounts may decline in value. The only way to avoid investment risk is to invest in cash-equivalent vehicles like money market funds. In doing this, however, the client will risk the long-term effect of inflation that erodes the purchasing power of their assets. Furthermore, as we learned during the financial crisis of 2008, not even money market funds are completely safe.

Since 1982, PMA has developed a highly disciplined manager selection process which combines qualitative and quantitative factors to determine those managers that are likely to produce superior risk-adjusted returns.

First, PMA divides its equity mutual funds into four asset categories--international equities, aggressive U.S. equities, conservative U.S. equities, and the S&P 500 Index. The international and aggressive equities generally display the greatest month-to-month volatility in returns and along with this increased risk have the greatest expected returns of these four asset categories. Funds in this category have slightly greater volatility than the S&P 500. Conservative equities have expected return at or below that of the S&P 500. Expected returns are generally lower than those of the aggressive equity category. Within the conservative and aggressive domestic categories, PMA further delineates funds by size and style, enhancing the diversification benefits by giving client's exposure to large, mid, and small-cap funds, and growth, value, and blend funds. In addition to equity funds, many clients are also invested in fixed-income mutual funds, too. Fixed-income securities are even less volatile but with a still less expected return. Money market funds are the least volatile and have the lowest expected returns.

The next step is a detailed analysis of the historical volatility of each mutual fund PMA is evaluating. We analyze the monthly returns of each fund for 12 and 60 months. We look carefully at the range of the returns - at how high the fund goes up and how low it goes down (the wider the range, the riskier the fund). We also look closely at the pattern of returns to make sure the fund is behaving according to its mandate. For example, if the fund calls itself a mid-cap value fund, is it really behaving like one? Is it truly picking stocks within the mid-cap value universe? And, assuming the managers are only picking stocks within their stated style, are they actually adding value?

PMA uses a proprietary statistical model, developed by Dr. Marshall Blume, to aid us in answering these questions. The model looks at four factors in explaining a fund’s returns – the overall market, size (large vs. small), style (value vs. growth), and interest rates. The model answers the question: did these managers stick to their style, and in doing so, did they do better than their index?

This produces an initial list of potential funds with high relative returns, low volatility, and a consistent investment approach. Funds are then screened for low operating costs and low turnover or trading activity. We eliminate all funds where, even if the record is good, the manager has less than five years of experience at the fund. These additional screens produce a small list of “eligible” funds.

The next and equally important stage of selecting funds requires a judgment of the person “behind the numbers”. Before placing client monies with any fund, we conduct a face-to-face interview with a manger of each fund. Approximately sixty to seventy funds from approximately fifteen to twenty different fund families, out of a universe of approximately 7,000+ US mutual funds, survive the process to become part of PMA client portfolios.

We use these carefully screened funds to accomplish our second main task: the construction of the client portfolio. The funds serve as the building blocks of the portfolio. For example, a typical client will be invested in 15 to 25 funds that represent a wide, diverse group of asset classes: international, domestic, small cap, large cap, growth, value, short fixed income and intermediate fixed income.

The building of the overall portfolio is part art, part science. For example, determining what percentage of a client’s assets should be invested in the international sector requires both mathematical analysis and intuitive judgment. How do we do this?

First, we separate our funds into five asset categories: international equity, aggressive equity, conservative equity, S&P 500, and fixed income. Each of these asset categories offers a different mix of risk and return. We calculate what we expect each category to return over the approximately next five years (using a dividend-discount model for equities and the current yield for bonds), and we look at how volatile each of these categories has been in the past (by calculating the monthly standard deviations over the past 60 months). Then, we calculate the return correlations for each of our five categories. This calculation tells us how the five asset categories are moving together. Is one going up while the other goes down? Has there been a change in the way that the different asset categories are moving together?

Using the above data as inputs, the proprietary PMA algorithm, developed by Dr. Blume, yields the portfolio weights for each of our risk-based portfolios. However, we do not blindly follow the weights that the algorithm calculates; often, we will adjust the weights the model recommends based on our own judgment about the riskiness of the markets.

PMA offers four main types of mutual fund portfolios – Small Risk, Moderate Risk, Substantial Risk, and All Equity. As their names imply, each portfolio has a different risk profile, which is a function of the percentage allocation to stocks and the percentage allocation to bonds. For example, the Small Risk Portfolio has an allocation of 80% to bond mutual funds and 20% to equity mutual funds. This is a very conservative portfolio. The range of returns during any year will be narrower than the other portfolios; this portfolio will not go down as much in bad years, but will also not go up as much in good years. Generally, its' returns are steadier but also, over the long-term, lower than the Moderate Risk, Substantial Risk, and All-Equity Portfolios.

PMA makes incremental changes to the model portfolios. For example, a moderate risk portfolio can be allocated between 45% to 60% equities, never lower or higher. During periods of investment hysteria, as we saw from 1998 through 1999, we may limit the equity portion of the portfolio to 45% or 50% equities, and during a period of pessimism and low valuations, such as the period that followed the bursting of the bubble, we may raise that percentage to 55% or 60%. These changes are infrequent and modest. Our investment committee meets at least four times a year to evaluate the risk of the equity and bond markets and to review the allocation of all of our client accounts.

Finally, PMA analyzes the historical volatility of the returns for each fund to detect any significant changes in a fund's investment strategy. As an example, if the volatility of an aggressive equity fund suddenly decreased to that of a conservative equity fund, there is a strong possibility that the management style of the fund had changed. PMA would then consider dropping the fund. Likewise, if there was a change in the manager without any observable changes in volatility, PMA would still consider dropping the fund.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Prudent Management Associate or the integrity of Prudent Management Associate's management. Prudent Management Associate has no information applicable to this Item. Neither the firm nor any of its advisors or support staff have faced any disciplinary action in the thirty plus year history of the firm.

Item 10 – Other Financial Industry Activities and Affiliations

David Kantor, an indirect owner at PMA, has a position in Santa Fe, New Mexico. He is Partner of Santa Fe Advisors LLC, a non-competitive investment advisory firm located in Santa Fe, New Mexico, providing investment advisory services to clients primarily in the New Mexico and Colorado areas. Mr. Kantor's responsibilities include analysis of potential investment opportunities and client relationship management and development. Mr. Kantor's position does not create any conflicts of interest with Prudent Management clients. He is not recommending alternative investments to PMA clients, since PMA does not use alternative investments.

PMA has no relationship with any other advisor, investment company or other pooled investment vehicle, hedge fund, off-shore fund, accounting firm, law firm, insurance company, pension consultant, real estate broker or dealer, sponsor or syndicator of limited partnerships, or any other type of relationship in which PMA receives compensation, either directly or indirectly, that could create a material conflict of interest.

On December 9, 1993 Prudent Brokerage Associates ("PBA") was registered as a broker-dealer with the Securities and Exchange Commission. On August 30, 2012 PBA voluntarily and on its own initiative filed with the SEC a form "BDW" to withdraw its registration as a broker dealer.

PMA's relationship with State Street Bank and Fidelity is described in Item 15 (Custody).

Item 11 – Code of Ethics, Participation or Interest in Client Transactions, Trading

Prudent Management Associate has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Prudent Management Associate must acknowledge the terms of the Code of Ethics annually, or as amended. Prudent Management Associates will provide a copy of our Code of Ethics to any client or prospective client upon request.

Several of the employees and the founders of PMA do have their money invested at PMA, alongside their clients. This does not create a conflict of interest. Like their clients, these PMA employees/founders are invested only in the mutual funds with which PMA partners. When PMA employees invest in a mutual fund, in which client money is pooled, both are investing along with thousands of other investors. This is very different from investing in an individual security. Directing an individual client's assets to a particular mutual fund will in no way affect the performance of that fund. The fund's performance is a function of the skill of the manager, and the investment choices that the manager makes, in which he or she is choosing among thousands of different companies. PMA's choice of the funds in which we invest a particular client's assets is made solely on the basis of that client's specific circumstances and risk tolerance. It is not based on PMA funds in which PMA advisors are also invested.

Accordingly, while conflicts may arise at investment advisory firms, or at brokerage firms, in which the advisor of the firm recommends to clients a particular stock, not because the stock is a suitable investment for the client, but because the advisor is already an investor in that stock, and wants the stock to go up in value, that conflict would never arise at PMA.

For example, an advisor at PMA will never have an occasion where he owns a single stock like Cisco, and – for his benefit and not the client's - either buys Cisco for the client or sells their interest in Cisco to the client. However, on many occasions, the same advisor may invest a client's assets in mutual funds in which the advisor is also invested. For the reasons set forth above, no conflict of interest is created in that situation.

Item 12 – Brokerage Practices

Since Prudent Management only trades in no-load mutual funds and does not purchase individual securities for its clients' account, it is not involved with the selection of broker-dealers. We have no incentive to choose a brokerage firm based on any benefits like research (often referred to as "soft dollars"). We do not use brokerage firms.

In the event that PMA were to need the services of a brokerage firm, we would likely use the brokerage arm of either Fidelity Investments or the Vanguard Group.

Item 13 – Review of Accounts

The investment committee of Prudent Management Associates meets at least once every quarter, and more frequently when warranted by financial conditions, to discuss the asset allocation of all of our clients' accounts in light of the current conditions in the financial and economic markets. The members of the investment committee are Marshall Blume (Founding Principal), A. Craig MacKinlay (Consultant), Edward Snitzer (Founding Principal), Fred Snitzer (Managing Director), David Wellborn (Principal), Richard Lerch (Director), and Barbara Solit (Director of Client Service). David Kantor does not attend investment committee meetings in person or by phone, but he may make his views on investment issues known to the committee prior to the meeting.

Prior to the investment committee meetings, Dr. Marshall Blume prepares and distributes to the committee members a Market Analysis/Asset Allocation report. This report typically includes: (1) a historical overview of market performance, including an analysis of the VIX (Options Exchange Market Volatility Index) and interest rate trends; (2) a historical analysis of average monthly returns and monthly standard deviations; (3) an overview of the economy; (4) a discussion of expected future returns and (5) a review of investment policy and asset allocation within the model portfolios.

At the investment committee meeting, a discussion about asset allocation also typically occurs. Usually, Prudent Management Associates' clients are in a portfolio that has an asset allocation range, and we are permitted to adjust our clients' portfolios within that range. For example, our Moderate Risk Portfolio can be allocated anywhere between 45% to 60% in equities. If the current target allocation is 55% in equities and we decide that market conditions warrant a reduction to 50% in equities, we will re-balance the portfolio to the new target. Or, if the target is 55% in equities but market appreciation has pushed the allocation of the clients in the Moderate Risk Portfolio to 60% in equities, we may decide to rebalance their portfolios back to the target of 55% in equities.

At the investment committee meeting, we may review the mutual funds that we use to construct client portfolios. We will analyze the funds for style consistency, performance, and turnover. We rarely discard a mutual fund that we have selected through our screening process (see Item 8), but will do so if there is a change in manager, or a change in the investment approach of the current manager. We will also evaluate potential new funds to add to the roster of mutual funds that we use to construct our risk-controlled portfolios.
Clients are mailed a monthly market value statement that shows the breakdown of their portfolio by fund. On a quarterly basis, clients are mailed a performance report and transaction report.

Item 14 – Client Referrals and Other Compensation

Prudent Management Associates has no arrangement with any non-client, client or any person who is not a supervised person at PMA, in which we pay them for client referrals in any way (cash, gifts, etc.). Client referrals generally come from our existing client base, estate lawyers, or accountants with whom we already have an established relationship, for which no referral fee is paid, or our own internal marketing efforts.

Item 15 – Custody

For most of the history of Prudent Management Associates, clients' assets have been held directly with the custodian banks of our mutual fund partners. We did not use third-party custodians like Schwab or Fidelity. Fidelity currently acts as the custodian for client assets, subject to a very few exceptions.

When we invest a client's assets, we set up on an account for them at Fidelity. All purchases of mutual funds and withdrawals of cash take place under the supervision of Fidelity. Clients' assets are protected and safeguarded by Fidelity.

Prudent Management Associates has the authority to move a client's assets only within their account. We do not authorize the withdrawal of a client's assets without their approval. We can rebalance a client's assets within an account by, for example, selling out of a bond fund and re-investing the assets into an equity fund, but we do not under any circumstances withdraw money out of a client's account without their approval.

PMA clients will receive a monthly statement from their custodian. We urge our clients to carefully review such statements every month. We also urge our clients to then compare these official custodial records to the monthly account statements that clients will also receive from Prudent Management Associates. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities but any material discrepancy should be brought to PMA's attention promptly.

Item 16 – Investment Discretion

When a client enters into a relationship with Prudent Management Associates, they sign an investment advisory agreement which states: "Prudent Management Associates will provide the Client with continuous supervision of the Client's investments, undertaking and executing the purchase, sale or exchange of securities whenever it deems it advisable to do so."
By signing this agreement, the client has given Prudent Management Associates limited discretion over their assets. This means that PMA now has the authority to choose which no-load funds to be bought and sold, and in what amount, without consulting with the client. In all cases, however, such discretion is to be exercised in a manner with the stated investment objectives for the particular client account.

PMA helps the client determine his/her investment objectives and capacity for risk with the help of the PMA risk exhibit. In this exhibit, the client has to make only one decision: what risk to take. This decision determines the asset allocation of the client's portfolio: what percentage of their assets will be invested in stock mutual funds, and what percentage will be invested in bond mutual funds. Once this decision is made, PMA has the authority to buy and sell no-load mutual funds without consulting with the client, consistent with the level of risk that the client has chosen.

The client is entitled to modify their investment decision and tailor it to their particular needs, within reason. For example, they can choose an allocation different from those offered in the PMA risk exhibit; they can choose to exclude a particular fund from their account; they can, although we do not recommend it, include a fund that is not on our roster of funds. Generally, we prefer to use our asset allocation models and the funds that have passed our screen, but we are flexible, and we are very aware that this money is our clients, and not ours.

Item 17 – Voting Client Securities

Mutual fund companies invest in thousands of companies across the world. Often, the fund company, and the investors it represents, has the opportunity to vote on certain issues involving the companies in which they are investors.

The mutual fund company is a proxy for the underlying shareholder. As the underlying shareholder, you – the investor – can, if you wish, vote on specific issues that are held to a shareholder vote. For example, mutual fund shareholders may be asked to vote for or against the recommendation of an individual to the board of directors of a company.

It has always been the policy of Prudent Management Associates not to vote proxies on behalf of our clients. We are comfortable deferring that responsibility to the fund company. In the investment advisory agreement that a client signs at the beginning of their relationship with PMA, there is a sentence that reads: "Prudent Management Associates has no authority to vote proxies on Client's behalf sent to it by mutual fund investment management companies and that such proxies will not be forwarded to Client by Prudent Management Associates."

However, if a client of PMA still wishes to exercise their right to vote on a specific issue at the company level, we can arrange for our custodian to send the proxy to us, and we will forward it on to the client. The client is then free to discuss with us, if they choose, the specific proxy issue on which they choose to vote. Otherwise, PMA has instructed the custodian not to vote proxies for any PMA clients in the event the custodian is availed the opportunity to do so. We have always assumed that any such right to vote was that of the client.

Item 18 – Financial Information

Prudent Management Associates is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

If an investment advisor requires that a client prepay their fee six months in advance, and the fee is more than $1,200, the advisor must include a balance sheet for their most recent fiscal year on their ADV Part 2. Prudent Management Associates does not require this. Therefore, this requirement does not apply to Prudent Management Associates.