PMA
PRUDENT
MANAGEMENT
ASSOCIATES

ADV Part 2A
Firm Brochure

Item 1 – Cover Page

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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.

The only material change to our brochure since last year is that Ed Snitzer, a Co-Founder of Prudent Management Associates and member of the firm's investment committee, died on September 11, 2019. Prudent Management Associates notified its clients of this fact in an email sent on September 12 and a letter on September 13, 2019.

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" or the "firm") is a registered investment adviser formed in 1982.

For more than thirty-five years, PMA has endeavored to make available to smaller investors the same sophisticated manager selection and asset allocation process used by the largest and most sophisticated institutional investors. Our coherent and intellectually sound investment process rooted in the principles of modern portfolio theory, coupled with a rigorous process of evaluating, selecting, and monitoring the managers we use to construct portfolios, have created a track record we are proud of.

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 carefully construct risk-controlled portfolios, designed to provide downside protection during bear markets while still participating in up markets. In using only no-load mutual funds, the firm is completely independent of the funds it chooses, and is compensated only by the client.

The direct owners of the firm are Keystone Development Services, Inc., Marshall Blume Associates, Inc., and Kantwell Partners, LLC. ("Kantwell"). As a result of the passing of Marshall Blume, the indirect owner of Marshall Blume Associates, Inc. is Loretta Blume. Keystone Development Services, Inc. is owned by Andrew, Paul and Fred Snitzer and Barbara Snitzer Solit. Kantwell is owned by David Wellborn, and (indirectly) David Kantor.

Although investment risk can never be eliminated entirely, 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 have to make only 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 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 offers four basic portfolios to its clients: a Small, a Moderate, a Substantial and an All-Equity, Risk Portfolios (see Item 8 for a fuller explanation of the construction of these four 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 31, 2020, PMA manages $1,101,410,707 in discretionary assets.

Item 5 – Fees and Compensation

Prudent Management Associates' management fee is payable quarterly in advance and is based upon a percentage of the market value of assets under management on the last business day of the previous quarter. PMA typically deducts management fees from client assets, but when requested, will send an invoice to clients for its services.

PMA's basic fee schedule is as follows:

.75% on the first $ 1 million of managed assets
.65% on the next $ 4 million
.50 % of any amount thereafter

PMA generally requires clients to have a minimum of $1 million in investible assets under PMA's management.

PMA has relaxed the minimum requirement under certain circumstances, but always in PMA's discretion. PMA also in its sole discretion sometimes agrees to lower fees based on certain criteria. These criteria include, but are not limited to, whether the client is a charitable institution, account size, anticipated future earning capacity, anticipated future additional assets, related accounts and account composition. Clients currently pay a range of fees that differ from the fee schedule.

Other Fees and Expenses

In addition to PMA's advisory fee, clients also pay fees to custodians for the maintenance of portfolio assets. The fee is not included as part of PMA's bills to clients. For most PMA clients the custodian is an entity owned by Fidelity Investments which charges a quarterly asset-based fee on most, but not all, mutual funds PMA selects for clients. At the time of this brochure update, Fidelity's maximum custody fee is 3.75 bps (.0375%) annually. Because approximately about 15% of PMA selected mutual funds are not currently subject to this custodial fee, we expect that the average charge to clients will be in the range of 3 to 3.5 bps.

PMA clients also bear a proportionate share of the operating expenses of the no-load mutual funds 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, 2019, the average asset weighted expenses of all funds in PMA portfolios was 32 basis points (.32%).

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

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.

No Additional Compensation to PMA

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. PMA is not compensated by any fund manager with which it does business nor does PMA receive 12b1 fees. Since PMA invests only in mutual funds and not individual securities, it does not have to negotiate fees with broker-dealers. PMA has no soft dollar arrangements.

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 information about minimum account requirements.

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 funds with whom we invest, diversifying over many asset classes (short and intermediate fixed income funds; 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 PMA believes 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 clients exposure to large, mid, and small-cap funds, and growth, value, and blend funds. In addition to equity funds, many clients are 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 various track record lengths. 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 proprietary statistical models to aid us in answering these questions. The design of each model is set to be compatible with the investment universe of the manager. For domestic equity managers, our analysis employs a seven-factor investment style based model and a six-factor risk-based model. For international equity managers, a five-factor region based model and a seven-factor world market (excluding US exposure) model are used. In the later model, the factor differentiation is by investment style. For fixed income managers, a five-factor model incorporating duration effects and credit risk effects is implemented. These models answer the question: did these managers stick to their investment universe and, in doing so, did they do better than their benchmark?

This analysis produces an initial list of potential funds with high relative returns, low volatility, and a consistent investment approach. Funds are further screened for low expense ratios and low turnover or trading activity. We generally 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 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 a target 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.. 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. Neither the firm nor any of its advisors or support staff have faced any disciplinary action in the thirty-five plus year history of the firm.

Item 10 – Other Financial Industry Activities and Affiliations

David Kantor, an indirect minority owner of PMA, is a Partner of Santa Fe Advisors LLC, an investment advisory firm located in Santa Fe, New Mexico that provides investment advisory services to clients primarily in the New Mexico and Colorado areas. PMA does not have any relationship or arrangements with Santa Fe Advisors. Mr. Kantor's responsibilities at Santa Fe include analysis of potential investment opportunities and client relationship management and development. Mr. Kantor's position does not create any material conflicts of interest with Prudent Management clients.

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.

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 managers of PMA do have their money invested at PMA, alongside their clients. We do not believe that this creates a conflict of interest. Like their clients, these PMA individuals are invested only in the mutual funds approved by PMA for its clients. 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.

Item 12 – Brokerage Practices

Since Prudent Management invests only 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.

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 A. Craig MacKinlay (Consultant), Fred Snitzer (Managing Director), David Wellborn and David Kantor (Principals), Richard Lerch (Managing Director), Keith Hardman (Financial Advisor), Daniel Berkowitz (Senior Investment Officer), Paul Snitzer (General Counsel and Chief Compliance Officer), and Barbara Solit (Marketing Director). David Kantor and David Wellborn generally do not attend investment committee meetings in person but may do so by phone.

Prior to the investment committee meetings, typically Craig MacKinlay will prepare and distribute to the rest of the committee members a Market Analysis/Asset Allocation report. This report typically has included: (1) a historical overview of market performance, including an analysis of 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 have the discretion to 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

Fidelity currently acts as the custodian for client assets, subject to a very few exceptions, and all purchases and sales of mutual funds run through the custody account, and PMA's advisory fees are typically deducted from the custody account as well.

PMA does not ever take physical possession of client assets. As the client's discretionary investment manager, PMA has the authority to instruct Fidelity to buy and sell mutual funds on a client's behalf and to utilize the assets in a client's account for that purpose. This includes rebalancing assets within an account by, for example, selling out of a bond fund and re-investing the assets into an equity fund.

PMA also may direct the transfer of assets between a client's managed account and one or more other accounts held in the name of the client but only with the client's express authorization and only where other protections are in place.

Other disbursements from client accounts require express approval by the client.

PMA clients will receive a monthly statement directly from their custodian, identifying all trading activity in the account and all deposits to and disbursements from the account. 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.

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

It has always been the policy of Prudent Management Associates not to vote proxies on behalf of our clients. 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."

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.