# WRAP FEE BROCHURE (Part 2A, APPENDIX 1 of Form ADV)



**CleverAlpha Asset Management, LLC**

**#CRD 301620**

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This wrap fee program brochure provides information about the qualifications and business practices of CleverAlpha Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at **310-293-7837** or **support@cleveralpha.com**. 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.

**CleverAlpha Asset Management, LLC** is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about CleverAlpha Asset Management, LLC is also available on the SEC's website at **www.adviserinfo.sec.gov**.

# Item 2: Material Changes

Since the last annual update of this Brochure, the following material changes have occurred:

1. **Office Address Change:** The Firm's primary office has moved to 5155 West Rosecrans Avenue, Suite 320A, Hawthorne, CA 90250.
2. **Service Tiers:** The Firm has defined two service tiers within the Wrap Fee Program: the **Digital Service** (standard robo-advisor) and the **Premium Service** (AI tax-scoring integrated with the algorithmic portfolio allocation).
3. **Fee Schedule:** The Fee Schedule was updated to include specific pricing for the Premium Service tier (up to 0.50% per annum).
4. **Billing Method:** The Firm clarified that advisory fees are calculated and assessed **monthly in arrears**.
5. **Service Providers:** The Firm clarified its relationship with **Dwolla, Inc.** and **MX Technologies** for payment processing, bank account verification and account funding.

# Item 3: Table of Contents

# Item 4: Services, Fees and Compensation

**A. Description of the Wrap Fee Program**

CleverAlpha Asset Management, LLC ("CleverAlpha" or the "Firm") offers the CleverAlpha Wrap Fee Program (the "Program"). In this Program, the Firm manages Client assets on a discretionary basis, primarily utilizing proprietary algorithms to construct portfolios of Exchange Traded Funds (ETFs).

The Program is offered as a "Wrap Fee" arrangement, meaning Clients pay a single annualized fee that covers both the investment advisory services and the execution of transactions (brokerage commissions/ticket charges) at the designated Custodian.

**B. Service Tiers**

The Program offers two tiers of service:

1. Digital Service ("Robo-Advisor")

The Firm's standard offering utilizes proprietary algorithms to manage client portfolios. Clients enter their financial information, investment goals, and risk tolerance into the Firm's digital platform, which generates a recommended portfolio. The Firm manages the account on a discretionary basis, automatically rebalancing the portfolio to stay aligned with the target allocation.

2. Premium Service ("AI Tax-Optimization")

Available upon client request and Firm confirmation, this enhanced tier leverages advanced algorithmic capabilities for tax efficiency. This includes AI-assisted Asset Location, where the Firm's software programmatically assigns assets between taxable and tax-advantaged accounts (e.g., IRAs) to optimize after-tax returns. All investment decisions in this tier remain systematic and aligned with the algorithmically assigned model portfolio.

**C. Fees and Compensation** The Firm's Management Fee is based on the service tier selected by the Client and the complexity of the Client's financial profile. The Firm utilizes a principled approach for transparency in fees and believes there is no need to obfuscate products and service pricing.

**1. Digital Service ("Robo-Advisor")** The standard digital service provides algorithmic portfolio management and automated rebalancing.

- **Account Values from $0 to $5,000:** $1.00 per month.

- **Account Values greater than $5,000:** 0.25% per annum.

- **Fee Reductions:** Management fees for this digital service generally are 25 basis points per annum, charged monthly. However, fees may be lower under specific circumstances, such as when CleverAlpha is acting in a sub-advisory capacity or for High Net Worth and Institutional accounts with assets exceeding $1 million.

**2. Premium Service ("AI Tax-Optimization")**

- **All Account Values: Up to 0.50% per annum.**

- **Fee Reductions:** Management fees for this premium service generally are 50 basis points per annum, charged monthly. However, fees may be lower under specific circumstances, such as when CleverAlpha is acting in a sub-advisory capacity or for High Net Worth and Institutional accounts with assets exceeding $1 million.

- **Applicability and Complexity:** The Premium Service fee reflects the additional scrutiny and resources required to implement advanced AI-driven Asset Location strategies. Potential clients should understand that Asset Location services may not be necessary or beneficial for every investor. For example, this service may not provide value if a Client:

  - Does not hold assets across multiple account types (e.g., lacks a mix of large taxable and tax-advantaged/retirement holdings);

  - Does not maintain all relevant accounts with the Firm, preventing a holistic analysis;

  - Holds positions with significant embedded capital gains in taxable accounts, where the immediate tax cost of an omnibus cross-account rebalance would outweigh the cumulative long-term value of asset location;

  - Is in a lower marginal tax bracket, where the tax savings generated by asset location strategies may be less than the incremental cost of the Premium Service;

  - Has a short investment time horizon or liquidity needs that prevent the multi-year compounding required for asset location to generate "tax alpha"; or

  - Is in the decumulation phase (e.g., taking RMDs), where mandatory withdrawals reduce the efficacy of tax-deferral strategies.

  Therefore, the fee of up to 50 basis points is reserved for Clients with complex portfolio make-ups where Asset Location is relevant and requires the Firm to dedicate higher levels of algorithmic resources and oversight to derive long-term value.

**Billing Method:** Fees are calculated and assessed monthly in arrears based on the Account value as of the last day of the previous month. Fees are deducted directly from the Client's account at the Custodian. Clients may also utilize Dwolla, Inc. and MX Technologies to facilitate funding and fee payments.

E. Other Fees and Expenses

The Management Fee covers advisory services and transaction costs at the Custodian. However, Clients may still incur certain charges imposed by third parties, which are not included in the Wrap Fee:

- Internal management fees and expenses charged by ETFs and mutual funds (Expense Ratios).

- Wire transfer fees, returned check fees, and other account administration fees charged by the Custodian.

- SEC fees or other regulatory surcharges on securities transactions.

# Item 5: Account Requirements and Types of Clients

The Firm provides investment advice to individuals, high net worth individuals, and corporations or other business entities. The Firm does not impose a minimum account size to open an account, although specific fee schedules apply based on account value (e.g., the $1.00/month minimum fee for accounts under $5,000).

# Item 6: Portfolio Manager Selection and Evaluation

**A. Selection of Portfolio Managers**

CleverAlpha does not select or recommend outside (third-party) portfolio managers for the Program. CleverAlpha acts as the sole portfolio manager for the Program.

**B. Related Persons as Portfolio Managers**

Because CleverAlpha is the sole portfolio manager, a conflict of interest exists because the Firm does not have an incentive to replace itself with another manager, even if another manager were to offer superior performance or lower fees.

**C. Performance-Based Fees**

The Firm does not charge performance-based fees.

**D. Methods of Analysis, Investment Strategies and Risk of Loss**

**1. Investment Strategies** The Firm utilizes the Capital Asset Pricing Model Black Litterman (CAPM BL) to construct diversified portfolios of ETFs designed to maximize return for a given level of risk. The Firm's proprietary algorithms analyze Client data to recommend a specific portfolio allocation.

**2. Methodology of AI Asset Location (Premium Service)** The Firm's AI is utilized specifically for **Relative Tax Burden Scoring** in the assistance of Asset Location, not for security selection (determining "what to invest in"). The AI scores ETFs relatively across an overriding target model portfolio to determine where to locate that asset (e.g., placing a REIT ETF in a traditional contributory IRA, a Small Cap Growth ETF in a Roth IRA, and a Municipal Bond ETF in a Taxable Investment Account).

This scoring process relies on publicly available recurring data fields and established industry methodologies. The AI attempts to extract core data to score ETF tax burden using inputs such as Tax-Cost Ratios, Distribution Yields (Ordinary vs. Qualified), Capital Gains History, and Turnover Structure. These fields allow the Firm to build a normalized "tax burden score" to guide asset placement.

**3. Material Risks** Investing in securities involves a risk of loss that clients should be prepared to bear. In addition to general market risks, the specific risks associated with the Firm's AI and technology-driven services include:

- **AI & Algorithmic Risk (Tax-Scoring):**
  - **Model Failure & Liability:** There is a risk that the AI may mis-score an asset (e.g., treating a high-yield ETF as tax-efficient), potentially leading to an avoidable tax bill. To mitigate this, the Firm treats the AI output as a decision-support tool. **Asset-location scores are reviewed by a human** before the algorithm is permitted to generate or implement any trade recommendations.
  - **"Hallucination" and Misinterpretation Risk:** As with any AI system, there is a risk the model

could misread or over/under-weight certain data points. Recommendations involving tax-sensitive actions are subject to human review to mitigate this risk.

- **Scoring Overrides:** If a Client overrides the system (e.g., keeping a position in a taxable account despite a poor AI tax score), the AI engine **does not provide any guarantee** of "optimal" or maximized tax outcomes.

- **Cybersecurity & Data Privacy:**

  - **Data Protection (AI Specifics):** To protect client privacy, Personally Identifiable Information (PII) is never sent to any AI or Large Language Model (LLM). All information processed by the AI is not used, strip or anonymized. This strict adherence is embedded in the Firm's technology to ensure there is no link between PII and AI programmatic access.

  - **Business Continuity:** In the event of a cloud service outage (AWS/Google Cloud), the Firm retains the ability to review positions and meet liquidity requests directly via the custodian's (Schwab Advisor Service) platform.

**E. Voting Client Securities Client Responsibility and Philosophy:** CleverAlpha will not vote proxies on behalf of Clients. While the Firm operates as an automated, scalable service, the Firm maintains a principled approach that investors should remain involved with their own financial well-being. We believe there is a distinction between removing "hassle" and removing "ownership."

Therefore, Clients retain the exclusive responsibility for receiving and voting proxies and will receive proxy materials directly from the Custodian. We encourage Clients to authorize themselves to receive and vote these proxies to maintain full transparency and control over their shareholder rights.

# Item 7: Client Information Provided to Portfolio Managers

Because CleverAlpha is the sole portfolio manager, there is no sharing of Client information with third-party money managers. Client information is utilized internally by the Firm's algorithms and investment personnel to manage the account.

# Item 8: Client Contact with Portfolio Managers

As a digital-first ("Robo") adviser, the primary method of Client interaction is through the Firm's website and digital platform. However, Clients enrolled in the **Premium Service** tier may contact investment personnel via email or scheduled calls regarding their asset location strategy.

# Item 9: Additional Information

A. Disciplinary Information

The Firm and its management personnel have no reportable legal or disciplinary events.

**B. Other Financial Industry Activities and Affiliations**

1. Velocity Clearing LLC:

   The Firm's CEO (Richard Cabanes) and CTO (Lucio Flores) are registered representatives of Velocity Clearing LLC, a broker-dealer. They assist Velocity in developing RIA services. CleverAlpha is independent

of Velocity, does not use Velocity for custody/brokerage, and receives no compensation from Velocity. This eliminates the conflict of interest typically associated with cross-selling.

2. Payment Processing (Dwolla and MX Financial):

   The Firm utilizes Dwolla, Inc. and MX Financial for payment processing, bank account verification and account funding. This arrangement involves the sharing of Client non-public personal information (NPI) to establish "Dwolla Platform" accounts.

## C. Code of Ethics and Personal Trading

The Firm has adopted a Code of Ethics pursuant to Rule 204A-1. Employees may trade in the same securities recommended to clients (e.g., broad-market ETFs). The Code requires pre-clearance of certain transactions and quarterly reporting to prevent conflicts of interest. A copy of the Code is available upon request.

## D. Review of Accounts

- **Digital Service:** Portfolios are monitored continuously by algorithms. Rebalancing is triggered automatically when asset class weightings drift beyond tolerances.
- **Premium Service:** Accounts may be subject to additional algorithmic reviews for tax-optimization (Asset Location).
- **Reports:** Clients have continuous access to holdings via the client portal. Official statements are delivered by the Custodian (Schwab).

## E. Client Referrals and Other Compensation

The Firm does not currently pay solicitation fees to third parties for client referrals.

## F. Financial Information

The Firm does not require prepayment of more than $1,200 in fees per client, six months or more in advance. The Firm has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.

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Additional Information You can find more information about CleverAlpha on the SEC's Investment Adviser Public Disclosure website by searching "CleverAlpha Asset Management, LLC." If you have any questions, please call (310) 293-7837.