

# *Brae Head, Inc.*

**Form ADV Part 2A: The Brochure of Brae Head, Inc. dated September 7, 2022 for:**

**Brae Head, Inc.  
16 Saybrook Rd.  
Essex, CT 06426**

Telephones: 888-932-3300

Website: [www.braehead.com](http://www.braehead.com)

Contact: Dennis M. O'Connor, President and Chief Investment Officer

This brochure provides information about the qualifications and business practices of Brae Head, Inc. If you have any questions about the contents of this brochure, please contact us by telephone at 888-932-3300 or by email at [doconnor@braehead.com](mailto:doconnor@braehead.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.

Additional information about Brae Head, Inc. is also available on the SEC's website at <https://adviserinfo.sec.gov/>.

Inquiries about the activities of persons giving investment advice in Connecticut and Massachusetts should be directed to:

Connecticut Department of Banking  
Securities Division  
260 Constitution Plaza  
Hartford, CT 06103  
(860) 240-8230 or toll-free 1-800-831-7225

Secretary of the Commonwealth  
Massachusetts Securities Division  
McCormack Building  
One Ashburton Place, 17<sup>th</sup> Floor  
Boston, MA 02108  
(617) 727-3548 or  
Toll Free (800) 269-5428 (Massachusetts only)

Brae Head, Inc. is a registered investment adviser. Registration does not imply a certain level of skill or training. Registered investment advisers are held to a fiduciary standard of conduct.

## **Item 2 Material Changes**

We have the following material change to report since the last annual update of this brochure that was dated March 23, 2022:

- Our principal office is now located at 16 Saybrook Road, Essex, CT 06426.

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

Brae Head, Inc. is a Registered Investment Advisor. On a fee-only basis, Brae Head manages fully discretionary equity, balanced and fixed-income portfolios for individuals, families, institutions and businesses. For one client Brae Head does not exercise full discretion; a corporate employee stock ownership account. Brae Head does not accept new clients on a nondiscretionary basis. The President and Chief Investment Officer of Brae Head, Inc. is Dennis M. O'Connor. Mr. O'Connor is the sole owner of the firm.

The Brae Head investment philosophy is to build and protect purchasing power over time. Our core focus is to manage and mitigate the systematic risk associated with participation in the securities markets, and the non-systematic risk unique to any specific security.

Each Brae Head client portfolio is individually managed. There are no pooled accounts. Each client's risk exposure is closely monitored.

Brae Head does not take custody of clients' securities. Upon request Brae Head will recommend a well-qualified broker-dealer for executing transactions and maintaining a suitable custodial account. A client relationship with Brae Head is only established after extensive interviewing and review of the Confidential Client Questionnaire.

To help the client develop an optimal investment strategy, Brae Head, Inc. offers basic financial planning. This includes templates for a client balance sheet, showing assets and liabilities, and an income statement showing personal cash flows. This service is completely optional for the client and is only as good as the information provided by the client. There is no charge for this service. Here is the general model we follow for a comprehensive financial plan:

1. Establish financial goals
2. Gather relevant data
3. Analyze the data
4. Develop a plan for achieving goals
5. Implement the plan
6. Monitor the plan

Since 1986 Mr. O'Connor has been making investments for himself, his family and his clients. He was a registered representative with the SEC and the NASD. He has held NASD registrations 3, 7, 8, 63 and 65. He was a licensed broker for accident, life and health insurance. He was a registered associate with the National Futures Association for commodities and futures trading and related options. Mr. O'Connor holds a B.A. degree in Economics from Ohio Wesleyan University and an M.B.A. from Pace University in New York. He is an investment adviser representative.

Mr. O'Connor has much real-world experience in the industry. He spent thirteen years in the paper and paper machinery business, three as a distributor and ten as a manufacturer. He has started and capitalized three companies, which are all going concerns: Orange Art Company, MedExchange International, Inc., and Brae Head, Inc. Mr. O'Connor has since sold his interests in both Orange Art Company and MedExchange. He has no affiliation with either company.

He is active in community affairs as past President of the World Affairs Council of Western Massachusetts. He has also served as treasurer and trustee of the Pioneer Valley Montessori Society and as incorporator and trustee of the Westfield Boys and Girls Club. For two years he lectured as an adjunct professor of graduate finance at American International College in Springfield.

After a four year stint at Merrill Lynch, Mr. O'Connor was recruited by Dean Witter in 1990. In 1993 he won the Dean Witter Equity Portfolio Challenge with a total return of 41.85%. In 1996 he won again with a total return of 54.085%. In 1997, convinced that the securities industry distribution model was seriously flawed, he founded Brae Head, Inc. to best serve his clients, their families and their businesses. Within the context of providing financial planning and family office services, Mr. O'Connor employs the best principles of Modern Portfolio Theory to systematically manage his clients' investments.

Each client portfolio is constructed to meet the risk tolerance of the client as stated in the Client Questionnaire. (See "Methods of Analysis, Investment Strategies and Risk of Loss") Clients may impose any reasonable restrictions on the management of their portfolio or the types of securities in which they invest, for example, restrictions against tobacco companies or weapons manufacturers. Clients are expected to alert Brae Head to any changes in their financial condition or their investment objectives. These changes are then posted to the Client Questionnaire.

#### *ERISA Plan Services*

Brae Head, Inc. is a fiduciary under the Employee Retirement Income Security Act of 1974, as amended (ERISA) with respect to investment management services and investment advice provided to ERISA plan clients, including ERISA plan participants. Brae Head, Inc. is also a fiduciary under the Internal Revenue Code (IRC) with respect to investment management services and investment advice provided to ERISA plans, ERISA plan participants, IRAs and IRA owners (collectively, "Retirement Account Clients"). As such, Brae Head, Inc. is subject to specific duties and obligations under ERISA and the IRC that include, among other things, prohibited transaction rules which are intended prohibit fiduciaries from acting on conflicts of interest. When a fiduciary gives advice in which it has a conflict of interest, the fiduciary must either avoid or eliminate the conflict or rely upon a prohibited transaction exemption (PTE).

The amount of Client assets managed by Brae Head, Inc. on a discretionary basis as of December 31, 2021 was \$ 72,327,861. The amount of Client assets managed on a non-discretionary basis on that date was \$ 1,018,111. Total assets under management were \$ 73,345,972.

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

The following Fee Schedule is annualized.

Equity and Balanced portfolios: 1% up to \$1,000,000; .5% for \$1,000,000 to \$2,000,000; .25% over \$2,000,000.

Where a cash balance is specified in a portfolio at the request of the client it will be maintained at a fee of .10%. Cash will include money market instruments. Other cash positions occurring as a result of portfolio management are subject to the full fee schedule.

Minimum account size: initially \$500,000. Family accounts may be amalgamated to meet this at Mr. O'Connor's discretion.

The Fee Schedule is negotiable and consideration of any discounts are solely at the discretion of Mr. O'Connor.

Fees are billed quarterly in advance based on the portfolio value the last day of the quarter. Fees are deducted directly from the Client's custodial account. If an advisory contract is terminated before the end of a billing period Brae Head will pro-rate and refund the unused fee.

Brae Head fees are exclusive of custodial fees. Client portfolios will be charged directly by the custodian for services rendered, including trade commissions, account maintenance fees (if applicable) and account closing fees (if applicable). In addition, mutual funds in client portfolios have certain expenses and costs which are deducted directly from the net asset value of each mutual fund. Brae Head is not compensated by any mutual fund or by the custodian of any mutual fund for any charges or fees related to any mutual fund. Purchases of any mutual fund are only at net asset value, no load. However, the custodian may charge a commission for a mutual fund transaction (presently a maximum \$25 for initial purchase). Brae Head may in its discretion employ exchange traded funds (ETFs).

Brae Head regularly reviews and compares fees and services of various providers of custodial services to be certain that costs are competitive, reasonable and statistically insignificant to portfolio performance.

All transactions are executed on an agency basis. Brae Head does not permit markups on purchases or markdowns on sales of client securities by the custodial broker-dealer. Brae Head receives no compensation for securities transactions.

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

Brae Head, Inc. does not charge Performance Based Fees and is not engaged in Side-By-Side Management.

## **Item 7 Types of Clients**

Brae Head provides its services to individuals, trusts, families, businesses and retirement plans, particularly profit-sharing plans. A minimum of \$500,000 of assets is required to establish a relationship. Mr. O'Connor in his sole discretion may permit family related accounts to amalgamate to meet the minimum size requirement.

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

Brae Head employs a disciplined, systematic approach to managing securities portfolios. The process is as follows.

We get to know you. You fill out a confidential questionnaire. You list as many as three financial objectives in order of importance. You describe your attitude toward price fluctuations. If you can, you will tell us specifically how much drawdown in value, over what period of time, you can tolerate in your portfolio, for example, 20% over two years. You sign and date the questionnaire. It will remain in your file at Brae Head for periodic review and updating.

We then create an allocation for your portfolio in two ways.

First, we utilize Sharpe's formula for mitigating "systematic risk." That is the risk of the stock market going up or down. We use the S&P 500 Index as a proxy for the stock market as a whole. Sharpe showed that you can manage the systematic risk of a portfolio by allocating between risky assets (the stocks in the S&P 500 Index for example) that go up and down in price with supply and demand, and risk-free assets which prices do not fluctuate (defined as U.S. Treasury Bills maturing in three months or less).

We show you how a portfolio would perform with different allocations of risk-free assets and risky market assets when the market as a whole is declining. We update this spreadsheet regularly as risk-free interest rates and our stock market forecasts change.

This can help clients focus on how much risk they are willing to take. It helps us mitigate portfolio declines by allocating a certain percentage of assets away from the risky market. We can use the same formula to construct portfolios with an equity component and a managed fixed income component, making the assumption that fixed income prices will remain predictable over time – including full maturity. Nothing in the process eliminates risk. It helps mitigate risk.

For the second part of the allocation process, we construct a portfolio of diversified equities to mitigate non-systematic risk. We have an optimal target of 27 stocks across at least 6 noncorrelated industrial sectors. Markowitz showed that a portfolio was optimized when a diversified portfolio of non-correlated assets was at its “efficient frontier,” the point at which any additional unit of risk was not rewarded with an equal unit of return. Stock selection is based on company profitability and sustainability of earnings growth. Companies are screened for exceptional profitability; financial strength; an understandable, viable product; preeminent market share; barriers to entry; transparent financial statements; consistent growth of earnings, revenues and dividends; and management excellence.

We construct the equity component of your portfolio by examining the stocks of thousands of different companies. We utilize much automated, purchased software to screen thousands of stocks at a time looking for our particular characteristics of sustainable growth at a fair price, representing good value.

When the decision is made to position a company, we do not immediately buy it. We must decide on timing. To do this we examine charts of the stock which show us price and volume (supply and demand) patterns. This is called technical analysis. Before committing to a stock we frequently get a second or third opinion from an outside technical analyst.

The equity component of a newly-constructed portfolio will have net income significantly higher than the net income of the S&P 500 Index. The dividend yield from your equity component will be significantly higher than the S&P 500. We want higher cash flows to the portfolio from companies that increase their dividends every year. Share prices tend to chase dividend hikes. The price/earnings ratio (P/E) of your equity component will be significantly lower than the S&P 500 Index. We are essentially buying good companies that are out of favor for one reason or another. That is why their P/E's are low (relatively cheap).

We construct a spreadsheet of all your stocks and update it quarterly as corporate earnings are reported. It shows us the earnings, P/E and dividend yield of the stock portfolio. We regularly compare this with the S&P 500. If our P/E is approaching or exceeding the S&P 500, we must either take profits or cut losses, the only two reasons for P/E expansion. We do the same thing as dividend yields shrink relative to the S&P.

Brae Head favors large capitalization stocks for liquidity but also invests in mid-caps and smallcaps that meet our screens. Brae Head positions a handful of foreign corporations but prefers stocks of American based corporations with international exposure.

Clients may expect portfolio turnover of 15% to 20% a year. Presently the maximum commissions charged by our custodial broker-dealer are: \$0 per stock trade; \$25 per mutual fund trade; \$0 for U.S. Treasuries; \$0.20 per bond for government agencies up to \$250 and \$1 per bond for corporates and municipals up to \$250; \$0.65 per contract fee for options. These commissions are statistically insignificant to portfolio performance.



We construct a low-risk, managed, fixed income component for your portfolio with cash and money market funds and securities rated by Moody's or Standard & Poors that are suitable for the risk tolerance of the client. These are usually corporate bonds although at certain times and for certain portfolios we will buy only U.S. Treasuries.

Maturities of taxable fixed-income securities never exceed 10 years. This allows the portfolio to generate approximately 90% of the yield of 30 year maturities but with approximately 30% of the price volatility.

There is an inverse relationship between bond prices and interest rates. As interest rates rise the prices of already-issued bonds decline to keep the effective yield at the prevailing market rate.

We actively manage the fixed income component of your portfolio by:

- extending maturities as interest rates rise, enhancing cash flows, and
- shortening maturities as interest rates fall, taking capital gains and preserving principal.

This is an incremental procedure. The purpose of this fixed-income component is to mitigate the price fluctuation of the entire portfolio, the systematic exposure, and get cash flows which can be reinvested for optimal return.

The exception to this fixed-income strategy is the composition of a tax-exempt municipal bond portfolio. Here the tax advantages can be significant enough that we can position securities maturing in as much as 25 years. The portfolio will have staggered maturities and/or call dates. We will invest only in obligations with suitable credit quality in stable demographic areas with strong tax bases or with strong revenue visibility to support principal and interest payments.

Portfolio securities are monitored constantly, every trading day. Any unusual movement in a stock that we follow prompts an immediate review of all portfolios holding that stock.

Each client portfolio is examined entirely by Dennis O'Connor, routinely, at least weekly.

The Brae Head client quarterly statement is designed to present time-weighted portfolio performance first. The first things a client sees upon opening the statement is the portfolio performance compared to the major market indexes or benchmarks, like the Consumer Price Index or the S&P 500 Index, over several time periods.

The Client Confidential Questionnaire is the most important thing we measure against – the goals and expectations the client laid out for us. We revisit that form many times over the years as client needs and circumstances change.

## **Item 9 Disciplinary Information**

Brae Head, Inc. does not have any disclosable disciplinary history.

Massachusetts law requires disclosure that information on disciplinary history and the registration of Brae Head, Inc. and its associated persons may be obtained by contacting the SEC's Office of Investor Education and Advocacy at (800) 732-0330 or by completing the SEC's online [complaint form](#) or [question form](#). Disciplinary history may also be obtained from the Massachusetts Securities Division at (617) 727-3548, and if asked, Brae Head, Inc. and its associated persons must also disclose the history.

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

Brae Head, Inc. and its management person are not involved with any other financial industry activities or affiliations.

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

Brae Head, Inc. maintains a Code of Ethics in order to: 1) remind employees of the Firm's responsibility to its clients to provide effective and proper professional investment management advice based upon unbiased independent judgment; 2) set standards for employee conduct in situations where conflicts of interest are most likely to arise; 3) assure that employees understand their responsibilities under all applicable laws; 4) develop procedures allowing the Firm to monitor employee activity for compliance with the Code of Ethics.

A copy of the Code of Ethics will be provided to any client, present or prospective, upon request.

Clients acknowledge in their investment advisory agreement with Brae Head that nothing shall limit or restrict the Adviser or any of its directors, officers, affiliates or employees from buying, selling or trading in any securities for its or their own account or accounts, and the Client acknowledges that the Adviser, its directors, officers, affiliates and employees, and other clients of the Adviser, may at any time have, acquire, increase, decrease or dispose of positions in securities which are at the same time being acquired, held or disposed of by the Client.

The Client also acknowledges in the Agreement that the Adviser performs investment advisory services for other clients, and that these services may differ both in nature and timing with the services provided to the Client. Transactions in securities may be accomplished on behalf of other clients prior to the time that they are executed on behalf of the Client and at prices that may differ from those obtained for the Client.

In practice and effect the potential for material conflicts of interest are insignificant. Such trades are incidental and not large enough to move the market for a security. Brae Head regularly performs a time and sales audit when building or liquidating a security. All trades are executed only when suitable for each particular client. It is possible that one particular client's best interest may be

served by selling a particular security while at the same time another client's best interest may be served by buying the same security. However, Brae Head does not participate in the execution of cross-transactions. All orders are entered with instructions to the broker-dealer to execute the trade on the open market on an agency, not principal, basis.

### **Item 12 Brokerage Practices**

Brae Head regularly reviews the services, benefits and expenses of a variety of broker-dealers. In determining a reliable broker-dealer to execute client transactions the most important consideration is service. "Service" includes ease of order entry, timeliness of execution, best execution, accessibility of professional personnel, user-friendliness of the account features for the client, excellence of technology and immediate access to tech support. The next consideration is cost of service: reasonable commission charges, reasonable account service fees, and reasonable cost of services to Brae Head, Inc.

Brae Head, Inc. does not receive compensation from any broker-dealer. Brae Head does not participate in "soft-dollar" arrangements whereby research or other products are exchanged for client securities transactions. Brae Head pays a fee for services that it purchases from the broker-dealer it utilizes on behalf of its clients. At this time Brae Head employs the services of one broker-dealer exclusively.

Brae Head may or may not aggregate purchase or sale of securities for client portfolios (also known as block trades). The process of block trading in Brae Head client securities has been found to be neither faster nor more cost efficient than executing separate trades in each client portfolio. There is no systematic difference between either based on time and sales analysis.

Because Brae Head, Inc. requires the client to direct its brokerage account to Charles Schwab & Co., Inc. it is possible that clients may be unable to achieve most favorable execution of client transactions, and this practice may cost clients more money. Not all advisers require their clients to direct brokerage. Brae Head, Inc. is not affiliated with Charles Schwab & Co., Inc.

### **Item 13 Review of Accounts**

Dennis O'Connor, the Chief Investment Officer of Brae Head, Inc., reviews each client account no less than weekly, examining the suitability of the securities in the portfolio with the objectives set down in the Client Questionnaire. On a quarterly basis each client portfolio is measured for its earnings, its P/E ratio, and its dividend yield.

No less than annually each client's asset allocation is analyzed for its systematic risk. Dennis O'Connor monitors all securities held in all client accounts daily during market hours. Material events affecting those securities that may impact client portfolios will trigger an immediate review of all relevant portfolios.

Quarterly portfolio reports show the time-weighted performance, net of fees, for the prior quarter, 12 months, year-to-date, and since inception, and compare those figures with the S&P 500 Index. In addition, the report shows the values at the beginning and end of the period, all transactions and fees, and an itemized list of all securities and balances at the end of the quarter.

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

Brae Head does not compensate anyone for client referrals.

#### **Item 15 Custody**

Brae Head does not assume custody of any client securities. Brae Head clients receive monthly statements from their custodian and quarterly portfolio reports from Brae Head, Inc. Brae Head urges clients to compare the statements from the custodian to the statements provided by Brae Head Inc.

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

Brae Head, Inc. only accepts new client relationships with complete discretionary authority to manage the client securities portfolio. There are no limitations to this authority other than the suitability of the investments and the preference or proscription of any particular investments as given in the Client Questionnaire. This discretion is described and authorized in the Investment Advisory Agreement as follows:

“The Client appoints the Adviser to act as the Client’s agent and attorney-in-fact with complete and exclusive power to buy, sell or otherwise effect transactions in the securities, cash or cash equivalents held in the Client’s account. The Adviser may act in the Adviser’s sole discretion and without the prior consent of, or consultation with, the Client. The Adviser shall not have any authority to, directly or indirectly, hold, obtain possession of, or appropriate the securities or other assets held in the Client’s account, except as provided in paragraph 6 of this Agreement with respect to direct payment of fees to the Adviser.”

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

Brae Head, Inc. does not accept and will not vote proxies for any securities held in client accounts. Clients acknowledge this in the Investment Advisory Agreement.

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

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. Brae Head, Inc. has no such financial circumstances to report. Under no circumstances do we require or solicit payment of fees in excess of \$500 per client more than six months in

advance of services rendered. Brae Head, Inc. has not been the subject of a bankruptcy petition at any time during the past ten years.

### **Item 19 Requirements For State Registered Investment Advisers**

The following individuals are the principal executive officers and management persons of Brae Head, Inc.:

- Dennis M. O'Connor, Chairman, CEO, COO, CIO and CCO

Information regarding the formal education and business background for Mr. O'Connor is provided in his respective Brochure Supplement.

Brae Head, Inc. is not engaged in any business activity other than giving investment advice.

Neither Brae Head, Inc. nor its supervised persons are compensated for advisory services with performance-based fees.

We are required to disclose all material facts regarding certain legal or disciplinary events pertaining to arbitration awards or other civil, regulatory or administrative proceedings in which our firm or management personnel were found liable or against whom an award was granted. Our firm and our management personnel have no reportable disciplinary events to disclose.

Neither Brae Head, Inc. nor its management personnel have a relationship or arrangement with any issuer of securities.