

Item 1 – Cover Page

# Form ADV Part 2A Brochure



Cottonwood Advisors, LLC  
*Registered Investment Advisor*

## Cottonwood Advisors, LLC

6900 College Boulevard, Suite 300

Overland Park, Ks 66211

913-345-0500

[www.cottonwoodkc.com](http://www.cottonwoodkc.com)

March 31, 2011

This Brochure provides information about the qualifications and business practices of Cottonwood Advisors LLC (Cottonwood). If you have any questions about the contents of this Brochure, please contact us at 913-345-0500. 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.

Cottonwood is a registered investment adviser. Registration as an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information from which you can determine whether to hire or retain an adviser.

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

## Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous Brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and will provide clients with a summary of such changes. We will also reference the date of our last annual update of our Brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will deliver to you a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our fiscal year. We may further provide other ongoing disclosure information about material changes as necessary. All such information will be provided to you free of charge.

Currently, our Brochure may be requested by contacting John Dykes at (913) 345-0500 or [jdykes@cottonwoodadv.com](mailto:jdykes@cottonwoodadv.com).

Additional information about Cottonwood is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Cottonwood who are registered as investment adviser representatives of Cottonwood.

### Item 3 - Table of Contents

|  |     |
|--|-----|
| Item 1 – Cover Page .....  | i   |
| Item 2 – Material Changes .....  | ii  |
| Item 3 - Table of Contents.....  | iii |
| Item 4 – Advisory Business .....   | 1   |
| Item 5 – Fees and Compensation.....  | 2   |
| Item 6 – Performance-Based Fees and Side-By-Side Management.....           | 3   |
| Item 7 – Types of Clients .....  | 3   |
| Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss ..... | 4   |
| Item 9 – Disciplinary Information.....                                     | 6   |
| Item 10 – Other Financial Industry Activities and Affiliations .....       | 6   |
| Item 11 – Code of Ethics .....   | 6   |
| Item 12 – Brokerage Practices.....   | 7   |
| Item 13 – Review of Accounts.....  | 8   |
| Item 14 – Client Referrals and Other Compensation .....                    | 8   |
| Item 15 – Custody.....   | 8   |
| Item 16 – Investment Discretion .....                                      | 9   |
| Item 17 – Voting Client Securities .....                                   | 9   |
| Item 18 – Financial Information .....                                      | 9   |
| Item 19 – Requirements for State-Registered Advisers .....                 | 9   |
| Brochure Supplement(s)   |     |

#### **Item 4 – Advisory Business**

Cottonwood Advisors, LLC (CRD # 140276) is registered as an investment adviser in the state of Kansas. Cottonwood is a wholly-owned subsidiary of the Cottonwood Group, LLC, a Kansas limited liability company ("Group"). Group is a pension plan consultant.

Cottonwood is based in and organized as a limited liability company under the laws of the State of Kansas and the United States of America. The firm has been in business since 2006 and currently has 3 employees.

Cottonwood's principal office and place of business is located at 6900 College Boulevard, Suite 300, Overland Park, Kansas 66211. Regular business hours are from 8:30am to 5:00pm Monday through Friday. The firm can be contacted by phone at (913) 345-0500, by fax at (913) 345-0172, or by email at [jdykes@cottonwoodadv.com](mailto:jdykes@cottonwoodadv.com). The firm's web address is [www.cottonwoodkc.com](http://www.cottonwoodkc.com).

John R. Dykes, CFA, founded Cottonwood in March 2006 and serves as the Chief Executive Officer and Chief Compliance Officer of the firm.

All of Cottonwood's clients are institutions and Cottonwood's general investment consulting business represents the majority of its activities. Cottonwood offers a broad range of investment consulting services directly to clients, and generally, the services are provided pursuant to a retainer structure, which is normally based on the value of the assets under advisement, but may also be structured on a fixed fee basis.

Services provided may range from a full service consulting relationship where Cottonwood functions like a member of the client's investment staff and provides a broad range of investment consulting services (investment policy design, asset allocation strategy, manager screening, selection, monitoring and evaluation, and regular performance reporting), or Cottonwood may provide any of the individual components of the full services on a standalone basis.

Most of Cottonwood's investment advisory services are provided on a non-discretionary basis. Occasionally however, Cottonwood may provide general corporate-related advice within the context of providing fee based investment advisory consulting services. From time to time, Cottonwood may even be requested to provide advice and recommendation on matters not involving securities. Clients will retain discretion in all such situations.

The majority of Cottonwood's investment advisory services normally follow an orderly progression of stages. Typically, Cottonwood (1) establishes the client's return objectives and tolerance for risk; (2) develops an asset allocation strategy designed to optimize the client's objectives and risk characteristics; (3) selects investment management organizations and/or mutual funds having specific style and performance characteristics appropriate for the client's investment strategy and its situation; (4) combines those managers/funds to achieve a desired portfolio structure; and (5) provides and interprets portfolio and manager performance reports on a periodic basis (usually quarterly).

Cottonwood offers advice on the allocation of some or all of the assets within a portfolio and on the selection of outside investment managers, mutual funds, group trusts, limited partnerships (hedge funds, private equity, etc.) and any other investment media deemed appropriate to implement the client's overall investment policy and asset allocation strategy. On a very limited basis, Cottonwood may offer advice on specific securities if so requested by clients, but generally does not.

**Item 5 – Fees and Compensation**

Cottonwood's standard fee schedule (which may be negotiable depending on the type and frequency of services provided) is based on the level of assets for which Cottonwood is providing consulting services. Cottonwood's basic all-inclusive asset-based retainer structure for its full range of investment consulting services is as follows:

| <u>Portfolio Assets</u> | <u>Base Fee</u> | <u>Fee Range</u> |
|-------------------------|-----------------|------------------|
| First \$ 5,000,000      | 0.30% per annum | 0.20% - 0.75%    |
| Next \$ 20,000,000      | 0.25%           | 0.10% - 0.65%    |
| Next \$ 25,000,000      | 0.15%           | 0.075% - 0.15%   |
| Next \$ 50,000,000      | 0.075%          | 0.05% - 0.10%    |
| Next \$ 150,000,000     | 0.03%           | 0.02% - 0.04%    |
| Over \$ 250,000,000     | 0.01%           | 0.01%            |

Cottonwood also provides fixed fee retainer contracts. Although not asset-based, these fixed fee retainer contracts are generally based upon this asset-based schedule above.

Whether asset based or fixed fee, a minimum retainer for full-consulting services may apply, and may also be negotiated with the client.

Cottonwood may also provide services on an "unbundled" basis or may perform individual projects for an agreed upon fee. For example, Cottonwood may be retained only to provide regular performance measurement reports (such as for a pension or 401(k) plan), with other activities being priced on an "as used" basis, or Cottonwood may be asked to perform a one-time search for an individual manager in a specific asset class. Fees for performance measurement services are based on the number of managers and asset classes to be evaluated, and manager search fees depend on the type (and number) of manager(s) being sought and the assets to be placed with the managers. Unbundled fees may also be assessed on an hourly billing rate.

Ongoing fees are generally billed directly to the client (or to the client's designee) and are payable on a quarterly basis in advance. If the relationship is asset based, fees are based on portfolio assets as of the end of the preceding period.

Regardless of the type of fee arrangement, clients may terminate a relationship at any time, and in such cases, any fees paid in advance will be refunded to the client on a pro rata basis.

Cottonwood's fees are in addition to any fund management fees and expenses paid by investment companies where client funds are invested, or any transaction fees or commissions incurred in the buying or selling of the assets in the client's portfolio.

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

Although its fees are often asset based, Cottonwood does not charge additional performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client), and consequently does not simultaneously manage performance based and non performance based accounts.

## **Item 7 – Types of Clients**

Cottonwood provides services to institutional clients including pension plans, retirement funds, endowment funds, foundations, etc.

Cottonwood has a minimum annual retainer fee of \$20,000. However, Cottonwood may, on a case-by-case basis, waive this minimum or impose account size or other restrictions.

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

Cottonwood's investment strategy is generally to reduce risk and volatility through diversification. The strategy involves an analysis of historic returns, portfolio volatility, correlations of different asset classes, market value levels and subsequent returns, returns based style analysis and other techniques of modern portfolio theory. Portfolio allocation strategies are developed to fit a particular client's tolerance for risk and investment return goals and, if applicable, their tax situation. The allocation of assets among asset classes may be either tactical (active) or strategic (passive), or may employ both to varying degrees, depending on the client's needs. Portfolio diversification and optimal portfolio structure is sought through a strategy of using multiple managers (or mutual funds) in each asset class. Cottonwood is not involved in the selection or review of individual securities held by investment managers or held in mutual funds.

To implement these strategies, Cottonwood employs various methods of analysis. For example, Cottonwood has affiliations/agreements in place with several providers of investment manager/mutual fund data base resources, analytic systems, and managed account programs, some of which are listed below.

Wilshire Associates, Inc., is a registered investment advisor headquartered in Santa Monica, CA. Cottonwood is a member of the Cooperative and Compass Programs ("Wilshire"), which provide access to a broad array of investment consulting service capabilities, including capital markets, research materials, portfolio and manager analytic software, a broad investment manager and mutual fund data base, as well as performance reporting capabilities for Cottonwood's clients. Cottonwood uses the Wilshire database and systems to develop recommendations for client portfolio structures and to select managers or funds through whom such portfolio structures will be implemented.

Morningstar is a third party research provider located in Chicago, IL. Cottonwood subscribes to its Principia and Premium member services which provide data and analysis monthly and daily on most publicly traded stocks and mutual funds. Cottonwood uses these data to monitor client investments daily, to prepare periodic client performance monitoring reports and to assist in the selection of funds for client plans.

Informa Investment Solutions is a Durham, NC web based provider of investment manager data and manager search software. It was formed through the combination of competing databases formerly known as PSN and Mobius. Manager Searches, Return Based Style Analysis, Report Designer, Client Reporting, Custodian Links, Custodian Data Feed, Performance Measurement, Investment Planning, and Financial Planning are all features of the provider.

Russell/Mellon Analytical Services is a global provider of performance measurement, analytics, and attribution services to fund sponsors, investment managers, and consultants. Frank Russell Co. and Mellon Analytical Solutions have a long history of providing integrated solutions to plan sponsor clients. Russell style-based index returns and composition are used in measuring plan level and manager level performance and style consistency.

While the Wilshire relationship is Cottonwood Advisors' primary data source, Wilshire operates somewhat like Cottonwood's back office in many respects, depending on the type and size of the client's portfolio. Cottonwood may access any of several other investment manager and mutual fund data bases to which it subscribes to custom design and/or evaluate client specific investment strategies or manager performance. In virtually all cases, the client's portfolio is structured on a consultative bases, where Cottonwood advises the client on strategy development, manager selection and other implementation issues, but the client retains discretion as to how and when to implement Cottonwood's recommendations. Often after a client has made a decision, Cottonwood will oversee implementation of that decision. In most client relationships, Cottonwood delivers and interprets client portfolio performance reports on a periodic (usually quarterly) basis.

Investing in securities involves risk of loss that clients should be prepared to bear. Such risks include market risk, interest rate risk, currency risk, and political risk, among others. Each client's propensity for risk however is thoroughly evaluated, documented, and considered throughout the portfolio implementation process

## **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 the evaluation of the firm or the integrity of its management. Cottonwood is currently not subject to, nor has ever been subject to, any legal or disciplinary events.

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

Cottonwood Advisors, LLC is a wholly owned subsidiary of the Cottonwood Group, LLC, and a pension consultant that provides actuarial services, defined contribution plan administrations services, and pension plan administration to institutional clients.

The relationship between the two may give each an incentive to recommend the other should additional services be needed by a client, which may be a potential conflict of interest. However, our clients are under no obligation to purchase services from any particular entity, and we make sure that they are aware of the relationship between the two firms. We believe that our recommendations are always in the best interests of our clients, and are consistent with our clients' needs.

## **Item 11 – Code of Ethics**

### **Code of Ethics**

Cottonwood has adopted a Code of Ethics which includes the Code of Ethics and Standards of Professional Conduct of the CFA Institute. The CFA Code of Ethics and Standards of Professional Conduct apply to all CFA Institute members, including holders of the Charter Financial Analyst ("CFA") designation.

Generally, the Code of Ethics requires all employees and investment advisor representatives of Cottonwood to (i) act with integrity, confidence, diligence, respect and in

an ethical manner in dealing with the public, clients and prospective clients; (ii) place the interest of clients above his or her own interest; (iii) use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, or engaging in other professional activities; (iv) encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession; (v) promote the integrity of, and uphold the rules governing capital markets; and (vi) maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals. The Cottonwood Code of Ethics also includes various regulatory provisions required of investment advisors, including practices for reviewing the personal securities transactions of supervised persons, compliance with applicable securities laws, insider trading, and disciplinary measures for violations.

Cottonwood will provide a complete copy of its Code of Ethics to any client upon request to the Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

Cottonwood generally does not recommend brokers for use by clients. Brokers are generally selected by the client or the client’s investment manager(s). Furthermore, Cottonwood does not monitor a client’s trading arrangements, unless contractually required to do so.

However, when Cottonwood does make recommendations concerning brokerage, the firm considers many different factors including quality of service, services offered, execution quality, transaction costs, reputation of the firm, financial resources, and stability, among others. In determining the reasonableness of a broker’s compensation, we consider the overall cost to the client relative to the benefits received, both directly and indirectly, from the broker.

While we may evaluate or recommend brokers, the client or its investment managers will ultimately decide who to retain.

With respect to brokerage conflicts of interest, Cottonwood does not receive research or other products and services in connection with client security transactions (“soft dollar benefits”). Clients may however pay for Cottonwood services using soft dollar credits they have received elsewhere. In other words, Cottonwood does not receive soft dollar benefits,

but Cottonwood services may be purchased by a client as a soft dollar benefit through its broker.

Regarding directed brokerage arrangements, clients may elect to request that managers direct brokerage at their own discretion. Cottonwood will offer recommendations on such arrangements when requested.

### **Item 13 – Review of Accounts**

Frequency and nature of account reviews vary depending on the scope of the relationship. In most cases, reviews are generally conducted quarterly with each client, and the review may be conducted by phone, by electronic mail, or in person, depending on the client's preferences. Reviews are conducted by the applicable client service officer/consultant assigned to the account.

Clients generally receive a quarterly review report which includes a summary of assets as of the end of the quarter, information about asset mix changes over the period, and information about benchmark performance, manager performance, and total fund performance relative to peer groups. Other performance descriptive information may also be included in certain instances.

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

Cottonwood does not compensate any outside parties for client referrals, nor does Cottonwood receive outside economic benefits (sales awards, prizes, etc.) in connection with providing services to clients.

### **Item 15 – Custody**

Cottonwood does not maintain custody of any client funds or securities.

## **Item 16 – Investment Discretion**

Cottonwood does not accept discretionary authority from any client accounts. When making recommendations for a client however, Cottonwood adheres to client’s written investment policies, limitations and or account restrictions.

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

Cottonwood Advisors does not vote proxies for its clients, nor does it assist in class action recovery claims.

## **Item 18 – Financial Information**

Registered investment advisers are required in some cases to provide certain financial information and or disclosures about their financial condition. For example, if a firm requires prepayment of fees for six months in advance, has custody of client funds, or has a condition that is reasonably likely to impair its ability to meet its contractual commitments to its clients, it must make provide financial information and make disclosures.

Cottonwood has no financial or operating conditions which require such additional reporting requirements.

## **Item 19 – Requirements for State-Registered Advisers**

As an SEC registered firm, this Item is not applicable.

# **Form ADV Part 2B Brochure Supplement**

**John R. Dykes, CFA**

**Cottonwood Advisors, LLC**

**6900 College Boulevard, Suite 300**

**Overland Park, KS 66211**

**913-345-0500**

**March 31, 2011**

This Brochure Supplement provides information about John R. Dykes that supplements the Cottonwood Advisors Brochure you should have received. Please contact us at (913) 345-0500 if you did not receive the Cottonwood Brochure or if you have any questions about it or the contents of this supplement.

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

## **Item 2- Educational Background and Business Experience**

John R. Dykes, CFA, born in 1955, founded Cottonwood in March 2006 and serves as Principal and Manager of the firm. Mr. Dykes was affiliated with Palmer & Cay Investment Services, Inc. from July 2001 until April 2006. From June 2000 until July 2001, he was affiliated with DeFrain Mayer. He came to DeFrain from Atlantic Asset Management where he had been national Director of Marketing since late 1998. Prior to that position, Mr. Dykes spent almost eleven years with DeMarche Associates, a nationally recognized institutional investment consulting firm in Kansas City. He has extensive experience working with clients to develop portfolio objectives, design asset allocation strategy and select investment managers to implement that strategy. Mr. Dykes currently is a Chartered Financial Analyst charter holder, is registered as an investment advisor representative. He also previously held Series 6, 7, 26, and 63 securities licenses. Mr. Dykes received a BA degree from Rice University and an MBA from the University of Kansas.

To earn a CFA charter, a candidate must complete four years of qualified investment work experience, become a member of CFA Institute, pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct on an annual basis, apply for membership to a local CFA member society, and complete the CFA Program. The CFA Program is organized into three levels, each culminating in a six-hour exam.

## **Item 3- Disciplinary Information**

As noted in Item 9 on Part 2A of the investment adviser brochure, Mr. Dykes is currently not subject to, nor has ever been subject to, any legal or disciplinary events.

## **Item 4- Other Business Activities**

Mr. Dykes has no other financial industry affiliations other than his ownership in Cottonwood's parent company, the Cottonwood Group, LLC. The Cottonwood group is a pension consultant that provides actuarial services, defined contribution plan administrations services, and pension plan administration to institutional clients. Mr. Dykes spend all of his time in his role as CEO of Cottonwood.

### **Item 5- Additional Compensation**

Mr. Dykes does not receive any economic benefits, sales awards, or other compensation in connection with providing advisory services to clients.

### **Item 6 - Supervision**

Mr. Dykes is the Chief Executive Officer and Chief Compliance Officer of the firm and consequently does not report to a supervisor.

### **Item 7- Requirements for State-Registered Advisers**

As an SEC registered firm, this Item is not applicable.