

Red Wave Investments LLC Brochure

Item 1: Cover Page

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This brochure provides information about the qualifications and business practices of Red Wave Investments LLC. If you have any questions about the contents of this brochure, please contact us at (717) 601.0651, marc@redwaveinvestments.com or visit us as www.RedWaveInvestments.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 Red Wave Investments LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Red Wave Investments LLC is a registered investment advisor in the State of Pennsylvania and the Commonwealth of Virginia. Registration with the Pennsylvania Department of Banking and Securities and the Virginia State Corporation Commission does not imply a certain level of skill or training.

Item 2: Material Changes

- We relocated our principal office to 3 Tannenbaum Circle, Dillsburg, PA in February 2015

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Item 4: Red Wave Investments' Advisory Business

Red Wave Investments (“Red Wave”, “We”, “Us”) provides comprehensive investment and wealth management services to individuals. The firm was founded in 2012 by Marc Smith. Our primary function is managing investment portfolios for individual clients, but we also provide a wide range of financial planning and wealth management services. These additional services are offered to clients as part of their relationship with Red Wave and are not billed separately. We are compensated for all work we perform for clients through our advisory fee, which is billed as a percentage of assets under management.

Principals

Marc Smith is the sole owner of Red Wave Investments. Marc started Red Wave Investments in 2012 after spending over two years with Hayek Kallen Investment Management, where he was a partner and portfolio manager. Marc has over 16 years of financial services experience in Charlottesville, VA, New York and Los Angeles. Prior to joining Hayek Kallen, Marc was an analyst at multi-strategy hedge-fund, where he invested in stocks, bonds and derivatives for institutional investors. His experience also includes working as a publishing Wall Street Analyst covering the retail/consumer products sectors for fixed income institutional investors as well as an investment banker on a variety of mergers & acquisitions and financing transactions. Marc received an MBA in Finance from Cornell University and a BA in English Literature from Pepperdine University.

Overview of Services

Red Wave Investments manages accounts according to a *Total Portfolio* approach. We are grounded in a fundamental value investment philosophy. Value investing is practiced by many investment professionals and was made famous by Warren Buffett at Berkshire Hathaway. Value investing involves fundamental financial and qualitative analysis of companies and seeks to buy securities when they are available at an attractive price. The philosophy is appropriate for many types of securities, although we primarily focus on stocks and bonds.

The *Total Portfolio* approach is achieved by combining a mix of stocks and bonds depending on each individual client's specific needs, objectives, risk tolerances, etc. The specific approach to each client's accounts is agreed upon at the beginning of the advisory relationship and updated as needed.

Each account is managed individually, but there is frequently overlap in holdings between accounts given that many of our core holdings are appropriate for many of our clients. We discourage client-driven restrictions on investment decisions, but we do occasionally agree to certain restrictions. Examples of restrictions we would agree to involve holding large, concentrated positions individuals might have inherited and agreeing not to own tobacco stocks in certain accounts.

As of January 10, 2017 we have \$7.9 million currently under management, all discretionary.

Beyond providing investment management services to our clients, Marc Smith occasionally provides consulting services to other Registered Investment Advisors, primarily with respect to security analysis and portfolio management. At no point does he have direct investment control or trading authority over any accounts not managed by Red Wave Investments.

Item 5: Our Fees

Our Investment Management fee is calculated based on the ending account balance each quarter. Accounts are billed in advance and deducted directly from the investment account. Our billing is based on the following tiers:

TOTAL PORTFOLIO ACCOUNTS

| Market Value of Assets | Scaled Annual Fee - as a % of Assets Managed |
|------------------------|--|
| First \$1,000,000 | 1.50% |
| Next \$1,000,000 | 1.00% |
| Above \$2,000,000 | 0.75% |

Each quarter's fees are calculated at the beginning of each new quarter based on the closing market value of the account on the last day of the prior quarter. For example, billing for the first quarter, beginning January 1, would be based on the closing account value as of December 31. The quarterly fee is one-quarter of the annual fee listed in the table above. The 1.50% annual fee is therefore billed at the quarterly rate of 0.375%. Fees are generally deducted within the first 10 days of the calendar quarter. We occasionally negotiate different fee arrangements on a case-by-case basis.

If a client terminates our advisory agreement during the quarter, they may be entitled to a refund of a portion of their pre-paid fees. We have a 30-day notice period, per our standard advisory agreement, so any potential refund is based on the date we receive written notification to terminate plus 30 days. A refund check will be mailed to the client if a refund is due.

Per Pennsylvania Regulation 404.011, all new clients are provided a 5 business day 'right of termination' period following receipt of Red Wave Investment's ADV brochure and signing an Advisory Agreement. Any new client wishing to terminate the relationship during that 5-day period may do so without penalty.

While clients' funds are held in custody at E-Trade Financial, we are deemed to hold custody by virtue of deducting our quarterly fee. As part of our fee process, we:

1. Obtain written approval from clients to deduct our fee directly from the account held at qualified custodian, and
2. Send E-trade a authorization each quarter on the amount of the fee to be deducted from each account, and

3. Send the client a written invoice itemizing the fee, including the formula and asset value used in the calculation of the fee

Other Fees and Expenses

Red Wave Investments does not hold custody of client assets and therefore does not have control over custody related costs. Clients will likely incur costs not charged by Red Wave Investments including, but not limited to, trading commissions, account service charges, etc. Clients are encouraged to review all charges, whether from our custody agent or from Red Wave to make sure they understand all charges. We do not receive commissions for transactions in client accounts.

For details about brokers we use see "Brokerage Practices." For information about referrals fees we pay see "Client Referrals and Other Compensation."

Item 6: Performance-Based Fees and Side-By-Side Management

Red Wave does not offer investment management services under a performance-based fee agreement. Our fees are based on a percentage of assets under management. Therefore, the conflicts of interest envisioned by this item do not apply to our business.

Item 7: Clients

Our typical clients are individuals and families. We work with both retirement and working age clients. We do not have a minimum account size to consider working with a new client.

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

Red Wave's strategy involves investing primarily in liquid equity and fixed income securities. Our approach involves both a top-down approach and a bottoms-up approach. By this, we mean, we begin looking at industries and sectors we feel will be successful in the current macroeconomic environment. We study global and country specific growth expectations, consumer confidence and a variety of other macroeconomic statistics as well as our view on global trends. We combine this macro view with fundamental research done on a company specific basis.

We want to find good companies in the sectors of the economy we think will thrive. When we analyze a company, we look at qualitative and quantitative measures. We analyze the company's cash flow generation, its balance sheet strength, its historical sales and profitability trends, etc. We also look at its management team, their commitment to increasing shareholder value, past and expected capital allocation decisions, etc. After reviewing many companies in a variety of industries, we have a good understanding of relative value of potential investments.

We then make decisions to buy/sell securities based on that research.

We invest our clients' money when we feel we have found a quality company at an attractive price. The analysis between stocks and bonds is slightly different given their respective places in the capital structure, but the fundamental underpinning of buying a quality asset at a reasonable price are constant throughout all securities. We want to find companies we trust, believe in and understand. When we find them, we buy them when we think the price is attractive.

We use what we call a Total *Portfolio* investment approach. This accounts for differences in individual client's risk tolerance and objectives and enables us to adjust the asset allocation between stocks and bonds accordingly.

We are an investment firm. We are not a day-trading firm. We typically buy with a 1-5 year investment horizon and are prepared to see our investment thesis play out. With any investment plan, the potential for loss exists. Markets are volatile and prices of equities and bonds can decline, sometimes significantly. We seek to mitigate this risk by buying securities at prices which provide a 'margin of safety' and constructing diversified portfolios to reduce the risk of a single security. However, investors should understand it is impossible to eliminate the risk of loss.

Item 9: Disciplinary Information

Red Wave has no legal, criminal or disciplinary events to report.

Item 10: Other Financial Industry Activities and Affiliations

We are independently owned and operated and are not affiliated with any bank. We have no industry affiliations or memberships to report.

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

Red Wave Investments has adopted the Code of Ethics issued by the CFA Institute. Red Wave will provide a copy of the CFA Institute's Code of Ethics & Standards of Professional Conduct upon request to any client or potential client. Additionally, it can be found at www.cfapubs.org/doi/pdf/10.2469/ccb.v2010.n14.1

Red Wave Investments, and its sole owner, Marc Smith, do not hold a material interest in any securities that we recommend to clients or that we buy/sell for client accounts.

At times, Marc Smith does invest in the same securities that the firm buys/sells for client accounts. As a general rule, trades in Mr. Smith's personal accounts are not done on the same

day as trades for clients unless a transaction is part of a block buy/sell trade conducted for clients.

Item 12: Brokerage Practices

We do not accept custody of client assets. Our clients' place their assets in their own private accounts, but grant us authority to direct trading in the managed accounts so that we may manage them per our advisory agreement with the client. Clients do not grant us authority to withdraw funds. Our clients use E-Trade Securities LLC as their qualified custodian. E-Trade Securities LLC is a registered broker-dealer and a member of FINRA and SIPC.

We are independently owned and operated and have no bank affiliations. We do not open accounts for our clients, although we may assist them in doing so. All client transactions are conducted through E-Trade Securities.

Red Wave Investments does not receive any soft dollars, research or other benefits in connection with client securities transactions. We do not receive client referrals from E-Trade Securities or any other financial institution.

Whenever possible, our practice is to aggregate trades into a single block order. This benefits clients by ensuring that all clients buy/sell at the same price. There are times; however, that block trading is not feasible or desirable given individual clients' specific needs, objectives and trading requests. In those instances, trades are conducted for accounts individually.

Item 13: Review of Client Portfolios

Red Wave reviews all client accounts several times per month. We regularly monitor all securities holdings and the current cash balance in client accounts to ensure the current holdings and asset allocation are still appropriate for our clients' needs and expectations.

We review accounts when we are looking to purchase new securities or sell an existing holding to see which accounts would be appropriate for a certain transaction. We also review accounts after events that affect the account composition occur, such as a large deposit/withdrawal or a client life event, such as retirement.

We strive to meet clients at least once a year to review the accounts and the client's goals and objectives. Additionally, we provide our clients with a quarterly billing statement and other written reports. Marc Smith, Managing Partner of Red Wave, conducts all client reviews.

Item 14: Client Referrals and Other Compensation

Red Wave does not receive or pay referral fees to other parties that might refer business or seek client referrals. We receive no other compensation than our agreed upon quarterly

management fee.

Item 15: Custody

Clients hold title to and possession of their funds and securities in accounts they open at E-Trade Securities. As the qualified custodian, E-Trade Securities is required to send, at least quarterly account statements to clients, which reflect the current amount of funds and each security in the account as well as all transactions in the account for that time period. Through Red Wave's ability to deduct fees from client accounts, we are deemed to have custody of client funds for the purposes of this section. E-Trade Securities deducts the fee from the client account in accordance with an agreed upon billing rate between Red Wave and the client. Red Wave sends a quarterly billing statement to clients and we encourage all clients to compare statements they receive from E-Trade Securities with the billing statements they receive from Red Wave.

Item 16: Investment Discretion

We retain investment discretion over all client accounts according to the terms of each client's specific Investment Policy. This discretion is granted to us through a Limited Power of Attorney, which gives us the authority to conduct buy/sell transactions in client accounts.

Prior to signing up a new client, we explain our approach to investing and overall investing philosophy so prospective clients will know what to expect with our management style. After explaining our investment philosophy, we sign an Investment Policy that outlines our agreed up goals and objectives for the account. This helps us ensure that we are all in agreement about the management of the account.

Item 17: Voting Client Securities

We do not vote any proxies for any client holdings.

Item 18: Financial Information

There are no financial conditions that are reasonably likely to impair our ability to meet our contractual commitments to clients. We bill only three months in advance and do not have custody over any clients' funds or securities. Red Wave has no debt obligations of any kind.

Item 19: Requirements for State-Registered Advisors

Marc Smith is the sole executive officer and investment advisory representative at Red Wave Investments. As of January 12, 2016 Marc Smith is 40 years old.

Educational Background:

Cornell University, Johnson Graduate School of Management **Ithaca, NY**
Master of Business Administration, Finance concentration, May 2004
Teaching Assistant for Intermediate Financial Accounting, Managerial Finance, Financial Modeling and Investment Banking Practicum

Pepperdine University **Malibu, CA**
Bachelor of Arts, English, April 1998

Business Experience:

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|--|------------------------------------|---------------------|
| Red Wave Investments LLC <i>Managing Partner</i> | Dillsburg, PA | 2012-Present |
| Hayek Kallen Investment Management LLC <i>Portfolio Manager</i> | Charlottesville, VA | 2010 - 2012 |
| Hutchin Hill Capital <i>Analyst</i> | New York, NY | 2008 – 2009 |
| UBS Investment Bank <i>Senior Fixed Income Research Analyst (Jan 2007 – May 2008), Associate Director - Research Analyst (Aug 2006 – Dec 2006) Associate Director, Investment Banking Division (Aug 2004 – Jul 2006)</i> | New York, NY / Stamford, CT | 2004 – 2008 |
| RSM Equico <i>Senior Analyst</i> | Costa Mesa, CA | 2000 - 2002 |
| Deutsche Bank <i>Analyst</i> | Irvine, CA | 1998 – 2000 |