

Saybrook Capital Corporation Brochure

2000 Frontis Plaza Boulevard, Winston-Salem, NC 27103
Phone 336-659-0290 • Fax 336-659-0282

7 Spring Street, PO Box 4, Sag Harbor, NY 11963
Phone 631-725-5518 • Fax 631-725-5519

110 East 59th Street, Suite 3200, New York, NY 10022
Phone 212-355-7733 • Fax 212-355-0063

saybrook@saybrookcapital.com

www.saybrookcapital.com

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This brochure provides information about the qualifications and business practices of Saybrook Capital Corporation. If you have any questions about the contents of this brochure, please contact Luke Babcock, Co-President, at (631) 725-5518. 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 Saybrook Capital also is available on the Internet at www.adviserinfo.sec.gov.

Material Changes

Note: Material changes stated below are only changes occurring since the last annual update reflected on _____.

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Advisory Business

Saybrook Capital provides primarily discretionary investment counsel to clients who share the dual goals of achieving a superior real rate of return over the long term and avoiding a significant loss of portfolio value in periods of declining financial markets. We seek a select group of clients who understand that superior investment results have always come from doing something different from the crowd. We believe Saybrook is differentiated by its emphasis on original research, its search for undervalued growth, and its strict valuation disciplines.

Under the discretionary service, Saybrook Capital has the authority to determine, without obtaining specific client consent, the securities and quantities to be bought or sold, the broker/dealer to be used, and the commission rates to be paid.

Saybrook Capital also offers a non-discretionary service that includes the tracking, monitoring, and reporting of assets not purchased or selected by Saybrook Capital.

As an independent investment adviser, Saybrook is not exposed to many of the conflicts of interest that plague our larger competitors. Nevertheless, Saybrook seeks to surpass the minimal requirements of Rule 206(4)-7 by consolidating all policies and procedures into a single document. The overriding theme of this document is Saybrook's fiduciary duty to act in the interest of its clients only.

Investment Goals for Our Clients

On behalf of its clients, Saybrook Capital seeks to:

- **Expand capital and income** at a rate well in excess of inflation, thus achieving a meaningful real rate of return
- **Preserve principal** in an era of volatile markets Saybrook Capital's longer-term performance, as well as our results during the recent years of down markets, demonstrates the firm's success in pursuing these investment goals.

Since the firm was founded in 1976, our cumulative returns have exceeded the S&P 500 benchmark. Mitigating losses during "bear markets" has been the key reason for this achievement. For instance, the broad market experienced three years of significantly negative returns from 2000 to 2003, and Saybrook Capital's average account had a cumulative positive return over the same time. We have provided meaningful real growth through a turbulent investment era.

Service Goals for Our Clients

At Saybrook Capital we consider our size a distinct advantage for our clientele:

- With a select group of about 50 clients, we are committed to providing a personalized level of service not available at large banks and brokerage firms
- Each account is managed individually with strict attention to the client's tax, income, and risk objectives
- Saybrook is singularly focused on managing our clients' assets - there are no conflicts of interest

Saybrook Capital manages each account in conjunction with major investment firms and trust departments; this coordination provides:

- Institutional-quality research and trading
- Safe, insured custodial and trust arrangements
- Electronic account access (if desired)
- Ability to maintain longstanding trust relationships

Asset Allocation Strategy

At Saybrook Capital, clients' assets are not invested in a "model portfolio" or "co-mingled funds". Instead we launch a detailed evaluation process to determine the proper asset allocation. The blend of bonds, cash equivalents, and a range of different equities will be determined by a variety of factors, including:

- **Investment Objectives**
- **Risk Tolerance**
- **Tax Status/Rate**
- **Future Cash Flows**
- **Philanthropic Goals**
- **Income Requirements**

Equity Investment Strategy: Undervalued Growth

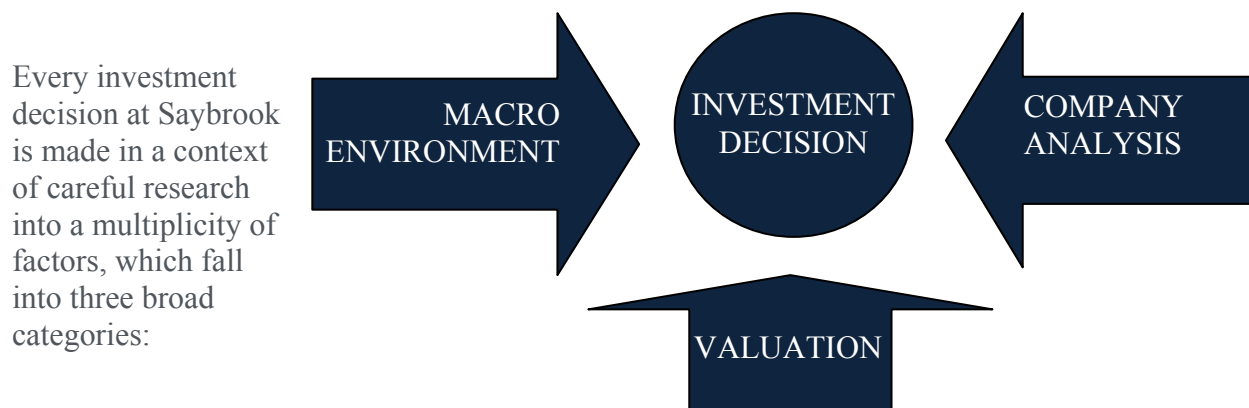
To reach our investment goals, we follow a two-element strategy:

1) Identify companies with superior growth prospects, which we define as:

- Secular growth, rather than cyclical recovery
- Growth that can be sustained at an above-average rate for at least three to five years
- Expansion that results from quality characteristics such as dominant products, superior marketing, forward thinking management and the capability to self-finance

2) Invest in such companies when their equities are truly undervalued, as determined by our strict valuation techniques

Equity Investment Strategy: Decision Making Process



Analysis of the Macro Environment

- Economic: understanding the inter-relationships of world markets
- Political: are government decisions encouraging or discouraging production?
- Sector: detecting shifts in consumer preference, government spending and capital spending
- Technical: recognizing changes in investor preferences

Company Analysis

- Determine growth prospects through insightful corporate research
- Concentrate on quality companies
- Emphasize accelerating momentum in products, markets and earnings
- Isolate, analyze and understand critical variables

Valuation

- Find distortions in market pricing
- Employ stringent relative value criteria
- Maintain buy and sell disciplines

Equity Investment Strategy: Characteristics of Quality Companies

<p>Outstanding Management</p> <ul style="list-style-type: none"> • Integrity, accessibility • Orientation to long-term earnings growth without equity dilution • Conservative accounting • Recognition of the pervasiveness of change • Strategic planners • Strong back-up management • Good personnel policies <p>Financial Strength</p> <ul style="list-style-type: none"> • High margins • High returns on capital • Self-financing • Strong controls <p>Low Government Regulation</p>	<p>Proprietary Products</p> <ul style="list-style-type: none"> • Effective research to maintain technological lead • Market franchise <p>Marketing</p> <ul style="list-style-type: none"> • Focus on growing markets • Ability to dominate • Strong orientation to customers' needs • Flow of successful new products • Unit growth in sales <p>Productivity</p> <ul style="list-style-type: none"> • Low labor costs, but well-paid employees • Opportunities on learning curve
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Only those companies that satisfy our requirements of excellence and hold the promise of substantial real growth are considered as candidates for investment on behalf of our clients.

Equity Investment Strategy: Managing Risk - Buy Disciplines

Recognize that risk is greatest when agreement is greatest

- The market will do whatever is necessary to prove the majority wrong
- It helps to be a contrarian

Stay focused on disciplines

- Thorough research to find superior growth
- Adhere to valuation standards

Try not to be seduced by “shooting star” themes

- Information Technology in the late 1990’s or
- Capitalize on negative psychology when confident in quality and growth

Diversification

- Diverse blend of asset classes and sectors reduces volatility
- Minimize exposure by limiting new purchases to no more than 5% of the total portfolio

Equity Investment Strategy: Managing Risk - Sell Disciplines

Four Reasons to Sell a Stock:

- Clear overvaluation due to appreciation (sell)
- Overweighting due to appreciation (reduce)
- Changing company character (sell)
- Disappointing fundamentals (sell)

Fixed Income Strategy: Constructing a Bond Portfolio

A diversified portfolio of bonds can play a role for all but the most long-term oriented investor. Fixed income securities can provide the following benefits:

- Portfolio Diversification
- Low Volatility
- Capital Preservation
- Regular Stream of Income
- Opportunity for Capital Gain
- Tax Advantages

When building a diversified bond portfolio it is imperative to focus on **after-tax** return. Wealthy individuals can take advantage of the tax-free income available from municipal securities, while institutions have the flexibility to seek higher returns from government and corporate bonds.

Fixed Income Strategy: Constructing a Bond Portfolio

In addition to selecting the type of bond, Saybrook Capital uses several strategies to mitigate two types of risk that threaten bonds:

Default Risk

To preserve principle we buy bonds that are:

- Low Risk (A-rated or higher)
- Diversified among a range of issuers

Interest Rate Risk

To minimize losses due to market fluctuations we:

- Purchase the bonds with laddered maturities so that the portfolio's yield is not overly impacted by trends in interest rates
- Analyze economic and monetary trends to capitalize on the volatility in the bond market

Management of the Firm

Bruce M. Babcock, a Chartered Financial Analyst, founded Saybrook Capital in 1976 after spending seven years as a vice president and investment analyst at Smith Barney, Harris Upham & Co.

A 1962 graduate of Yale University, Bruce received a M.B.A. degree from Columbia University Graduate School of Business. He spent three years as a Navy Supply Officer between college and graduate school.

Bruce is a trustee of the Mary Reynolds Babcock Foundation, the Wake Forest Board of Visitors, and the North Carolina School of the Arts Foundation. In addition, he is a member of the North Carolina Society of Financial Analysts and the Association for Investment Management and Research.

Luke M. Babcock, a Chartered Financial Analyst, started with Saybrook in 2001. He graduated from Duke University in 1993.

He worked for Donaldson, Lufkin & Jenrette for seven years, overseeing diversification and asset allocation strategies for large portfolios.

Luke is an Elder of the Bridgehampton Presbyterian Church and a Trustee of Peconic Landing, both on the east end of Long Island. He is a member of the CFA Institute and the New York Society of Securities Analysts.

Scott R. Hirsch joined Saybrook Capital in 2007. He graduated magna cum laude from Bowdoin College in 1990 and, as a Fulbright scholar, earned a M.A. degree in International History at Cambridge University.

Prior to Saybrook, Scott managed an investment holding company for a large New York family. Previously, Scott also worked with two investment firms (Mitchell Hutchins Asset Management and Brown Brothers, Harriman & Co.) as an analyst and portfolio manager.

Scott is the Treasurer of the Franklin and Eleanor Roosevelt Institute in Hyde Park, New York. Scott and his family live in New York City.

Corporate Goals

- To achieve excellence in our niche of investing in undervalued growth companies
- To continue producing superior relative performance
- To build long-term relationships with a small number of institutional and individual clients
- To concentrate on the successful management of our clients' assets, rather than on the development of a large organization

Fees and Compensation

Investment supervisory services are rendered to clients based on their particular requirements. For employee benefit plans and endowments these would include long-term total return goals and risk sensitivity, while for individuals, age, income, family situation, and other assets would also be considered.

Compensation for services is based on a percentage of the assets managed. Fees can vary based on the type of relationship. In addition, there are certain early accounts that began at a relatively high level (i.e., over \$3 million) who are given a discount from the original fee schedule. Some negotiation of fees for larger or non-discretionary accounts is possible. Accounts are billed quarterly at the end of the quarter based on market values at the time of billing. For accounts established after June 30, 2007, the account fee is as follows:

<u>Assets Under Management</u>	<u>Annual Fee</u>
Accounts less than \$1 million	2.0% of assets
Accounts over \$1 million have a graduated fee schedule:	
First \$5 million	1.25% of assets
From \$5 to \$10 million	1.00% of assets
From \$10 to \$25 million	0.75% of assets
Amounts over \$25 million	0.50% of assets

For accounts established after January 1, 1984 and June 30, 2007, the account fee is as follows:

<u>Assets Under Management</u>	<u>Annual Fee</u>
Amount less than \$1 million	1.50% of assets
Accounts over \$1 million have a graduated fee schedule:	
Amounts from \$1 to \$5 million	1.25% of assets
Amounts from \$5 to \$8 million	1.00% of assets
Amounts over \$8 million	0.75% of assets

For accounts established prior to January 1, 1984, the basic annual fee is:

1 ³ / ₄ % of the first \$300,000
1 ¹ / ₄ % of the next \$200,000
0.8% of value greater than \$500,000

Whenever Saybrook invests in a mutual fund, clients are paying two advisory fees, an investment management fee to Saybrook on the assets in the mutual fund, and a management fee to the mutual fund advisors. Normally, this occurs in Saybrook's accounts only in the case of money market funds. Either the client or Saybrook upon delivery of written notice to the other party can terminate the contract for investment supervisory services. The fee would be paid on a pro rata basis.

Assets under Management

As of December 31, 2008, Saybrook Capital managed assets for the following client groups:

Discretionary: \$195 million

Non-Discretionary: \$228 million

Types of Clients

Saybrook Capital provides investment advice to individuals, pension and profit sharing plans, and trusts, estates and charitable organizations.

Types of Investments

Saybrook Capital offers advice on exchange-listed securities, securities traded over-the-counter, foreign issues, corporate debt securities, municipal securities, mutual fund shares, United States government securities, and option securities.

Investment Analysis, Strategies and Risks

Saybrook Capital's security analysis methods include fundamental, technical, and cyclical methods, and the main sources of information used to gather investment information includes financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the SEC, and company press releases. Most clients assign Saybrook Capital full discretion with regard to which securities are to be bought or sold, and the amount. Clients also generally give Saybrook full authority to select brokers or dealers through whom securities are bought or sold, and commissions paid. A few, however, designate that all or a part of their brokerage be directed to a specific broker.

The first action taken with a new investor is to carefully assess risk and return objectives, as well as portfolio constraints. Importantly, Saybrook frequently monitors these objectives and constraints and adjusts the portfolios accordingly.

Investing in securities involves risk of loss and clients should be prepared to bear these losses; however, investment decisions are carefully made with reasonable basis and representation, with written records that support this investment process. Investments are always selected with considerable care, independent professional judgment, and objectivity. Client needs and suitability are always considered.

Other Financial Industry Activities and Affiliations

Saybrook Capital utilizes several different broker-dealers that conduct our trading and custody activity. Some accounts are held in custody at banks where the relationship pre-dates the account at Saybrook Capital. Other clients request that Saybrook Capital select a bank or brokerage firm for secure custody of their assets. In either case, Saybrook Capital does not hold assets directly.

At the request of specific clients, Saybrook is occasionally asked to also work with outside consultants and private family offices.

Brokerage Practices

Brokers are selected primarily on their ability to make prompt and competitive executions. A secondary consideration is the efficiency of their back office and custody arrangements. Ability to provide useful research is also important in choosing which broker to use. Reports on individual companies and statistical data comparing companies and industries are received both verbally and in written form from the leading firms specializing in institutional research. Although not essential, Saybrook considers the receipt of such material to be a valuable aid in conducting its business. All stock transactions are made at a significant discount to the prevailing “full” commission schedules.

In addition to the fundamental corporate research provided, some commission dollars are allocated to specific brokers to pay for particular research services (e.g., detailed analysis of economic, government, or stock market trends) or for software to assist in the investment management process. This type of commission is termed “soft-dollar” commissions. These transactions are done at the same significant discount as other commission business. However, the commissions generated in one account may be used to purchase research useful for other accounts, as well. Thus, some accounts with full discretion for broker selection may be subsidizing other accounts whose commissions are directed by the client.

Research provided by brokers is useful in servicing all of our accounts, but all such research may not be applicable to the particular account in which any given transaction takes place.

In the past fiscal year, Saybrook Capital agreed to receive Portfolio valuation software from Advent Software (used to monitor and provide reports), Pricing services from FT Interactive, Confirm software from Omgeo and DTCC (used to connect and download confirms), proxy voting software from ProxyEdge, and stock analysis tools, Snapshot PM and Value-Line. The commissions used to pay for these services are done at a significant discount from standard “full” rates and in total are approximately 5-10% of the total commissions generated by Saybrook. When we use client brokerage commissions to obtain this research and other software, we receive a benefit because we do not have to produce or pay for these services, which in turn, allow us to carry these savings to our clients. Saybrook Capital may have an incentive to select or recommend a particular broker-dealer based on our interest in receiving the

research or other products and services utilized by our company, in addition to our clients' interest in receiving best execution. Saybrook Capital feels that the benefit of receiving these services benefits the client.

Frequently buy or sell orders for several clients are combined into one larger order and given to a broker. Clients participating in an aggregated order will receive an average share price, and transaction costs (commissions) will be shared on a pro-rata basis. This practice insures that all clients are treated equally ("fair-dealing") and normally results in a lower per share commission rate.

Directed Brokerage

Saybrook Capital does not require clients to direct us to execute transactions through a specified broker-dealer. It is Saybrook's policy to guide clients to select a broker that benefits both the research needs of Saybrook Capital and the best execution rights of the client. Saybrook discloses any conflicts of interest on an individual basis and gives the client the opportunity to direct brokerage if they choose to do so, however, Saybrook Capital may be unable to achieve best execution of client transactions. Directing brokerage may also cost clients more money due to higher brokerage commissions.

All stock exchange transactions are made at a significant discount to the prevailing "full" commission schedules.

Code of Ethics

Saybrook Capital, an SEC-registered advisor, operates and always has operated under very strict ethical guidelines and has adopted our code of ethics pursuant to SEC rule 204(A-1). Our Code of Ethics is dictated by the superlative standards laid out by the CFA Institute. These standards of integrity, care, confidentiality, and professionalism are our guiding principles when dealing with clients, vendors, brokers, other investors, and the general public. If you would like to review our "Master Compliance Policies and Procedures" (which provides further detail beyond what is in this document), please contact Laureen VanLandingham at (336) 659-0290.

Participation in Client Transactions and Personal Trading

Some employees of Saybrook Capital invest in securities owned by its clients. Saybrook Capital's policy is that purchases and sales in such securities should not conflict with those of our clients. Thus, both should be made after all such transactions have been completed in all clients' accounts. All personal trades are recorded in the "execution log", which the compliance officer reviews to insure compliance with this policy. Those employees who do not invest in the stock market sign a document each quarter confirming that they have done no personal trades.

Policy Concerning Material, Non-Public Information

It is the policy of Saybrook in its function as an investment advisor to avoid the use of any material, non-public information in its investment decisions. If such information is made known or passed on to any employee of the firm, he or she is to take no action on any of the securities involved with the company until such information has been publicly disseminated. This policy applies to investments for Saybrook's clients and for the accounts of Saybrook employees and their relatives. Each employee signs a document annually confirming that he/she has read and understands this policy.

Review of Accounts

All accounts are reviewed at least weekly, and usually more frequently, by Saybrook Capital's principals and/or portfolio managers. Because of the relatively small number of accounts under management, they all can be examined in a relatively short period. Special reviews beyond the regular weekly examination may be instigated due to a sudden move in the market (either up or down) or in one or more important securities. Because of the small number of clients, the accounts are reviewed at random. Factors reviewed include: percent invested by security and industry; percent invested in notes, bonds, stocks; income produced; level of gains or losses within the year.

An investment review is prepared for each client quarterly. These reviews contain a portfolio valuation and a discussion of recent performance and investment strategy. Personal meetings may also be held with clients on an annual or semiannual basis to review client's goals and investment strategy.

Accuracy of Disclosures and Benchmarks

Results reported to clients on quarterly account statements reflect the actual market value of the securities held in the respective accounts, as measured by the closing prices on the last day of the reporting period. Saybrook employs a third-party pricing service, FT Interactive Data, to calculate the accurate closing market values. Other pricing services that may be employed include: Advent and the Depository Trust and Clearing Corporation (DTCC). Saybrook reports performance to clients net of management fees and transaction costs.

The "performance numbers" for Saybrook furnished in marketing materials are based on the results of representative discretionary accounts, which have no restrictions on minimum yield or percent of the portfolio invested in common stocks. The annual performance number for Saybrook is calculated as a dollar-weighted average of the performance of each of these fully discretionary accounts. The "All Assets" results are computed to reflect the payment of investment management fees and transaction costs. The "Equity Only" performance is compiled

by measuring the portion of these representative accounts invested in stocks. Unlike the "All Assets" performance, these numbers do not reflect the payment of investment management fees, but do include transaction costs.

Saybrook's long-term record is compared to that of the S&P 500, because the latter is the most commonly accepted index of performance for U.S. equities. Since this index represents a 100% investment in a broad range of stocks, while Saybrook's portfolios are sometimes not fully invested, our managed accounts tend to be less volatile than the broad market averages, which means they often rise less in ascending markets and decline somewhat less in falling markets. Moreover, while Saybrook's index of performance has been positive on an annual basis during this period, there is definitely no assurance that a portfolio will not decline in the future. In a sharply down stock market, our accounts will probably lose some value.

Custody

Saybrook is not a broker-dealer, bank, or custodian and does not take custody of client assets. Saybrook is given discretion by some clients to choose a bank or broker-dealer to custody the assets. In this case, Saybrook Capital takes care to insure that assets are safeguarded in a manner consistent with our fiduciary responsibility.

Investment Discretion

Normally, clients that hire Saybrook Capital give the firm full discretion to invest the portfolio. This discretion is formally recognized by signing a "Saybrook Capital Client Agreement." Some clients notify Saybrook Capital of certain restrictions (legal, tax, social-responsibility, or otherwise) that will limit Saybrook Capital's investment decisions. Occasionally, Saybrook Capital enters into a "non-discretionary" agreement with a client where the firm is paid a negotiated fee to monitor and report on investments, but not execute transactions.

Voting Client Securities

Saybrook recognizes its duty to vote proxies for all client securities for which it has been given discretion. Saybrook's policy can be best summarized as: all voting decisions are based upon seeking long-term growth of shareholder value through price appreciation and dividends. Saybrook votes its clients' proxies with the necessary prudence, judgment, and care that its fiduciary duty requires. Saybrook's written voting policy prevents material conflicts of interest between the advisor and the client. In no situation will Saybrook ever consider its own benefit while voting proxies.

One of the characteristics that Saybrook seeks in a "quality company" is "outstanding management". We insist that management's qualifications include integrity, accessibility,

conservative accounting, and an orientation towards long-term shareholder value. Therefore, Saybrook tends to vote many issues in agreement with management's recommendations. The following items usually fall in this category: election of directors, modest increases in share authorization, renewal of auditors, and approval of reasonable stock incentive plans. Saybrook will sometimes vote with management against a shareholder proposal, if we feel that the proposal conflicts with long-term shareholder value.

Other issues demand a more comprehensive evaluation to avoid any potential conflicts with long-term shareholder value. Examples of proxy items that demand more extensive examination include: hostile mergers and acquisitions, anti-takeover tactics, excessive compensation plans, and auditor changes.

You may obtain a copy of the complete Proxy Voting Policies and Procedures by contacting Laureen VanLandingham at (336) 659-0290.

Maintaining and Protecting Client Records

Saybrook Capital keeps ten years of hard copy records in the files at our secure office in Winston-Salem, NC.

It is Saybrook Capital's universal practice to hold in complete confidence all information concerning clients. The only exception to this practice is that, upon the opening of a new account, a client's name, address, and social security number may be provided to the custodian and/or broker in order to execute trades. Other than this requirement, all non-public personal information is kept in strict confidence. Such data is maintained in individual files for each client, and access to these files is limited to the designated portfolio manager and Saybrook's office manager and administrative assistant.

Business Continuity Plans

Saybrook Capital is a corporation with headquarters in North Carolina and two offices in New York. Saybrook employs five people, three of whom are investment professionals. The firm takes a process-oriented approach, highlighted by a clearly defined set of investment goals and a proprietary investment strategy. Rather than a dependence on a single leader, Saybrook's team approach combined with a proven process enables continuity regardless of personnel changes.

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Items Not Included in Brochure

The following items are not included in the brochure due to inapplicability:

- Performance Fees and Side-by-Side Management – Saybrook does not accept performance fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).
- Brokerage for Client Referrals – Saybrook does not direct brokerage based on receiving client referrals.
- Payment for Client Referrals – No one is compensated for client referrals.
- Financial Information – Saybrook does not require or solicit prepayment of client fees.
- Requirements for State-Registered Advisors – Saybrook is not state registered.
- Wrap Fee Program Brochure – Saybrook does not participate in Wrap Fee programs.
- Brochure Supplement for Supervised Persons – Saybrook Capital does not have supervised persons that provide investment counsel. All investment advisors are officers of the company and have discretionary authority only as a team.
- Disciplinary Information – Saybrook Capital has no legal or disciplinary events against them.