

FORM ADV**Part II - Page 1****Uniform Application for Investment Adviser Registration****OMB APPROVAL**

OMB Number: 3235-0049
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hours per response9.01

Name of Investment Adviser:

Stepp & Rothwell, Inc.

Address: (Number and Street)	(City)	(State)	(Zip Code)	Area Code:	Telephone Number:
7300 College Blvd., Ste. 100	Overland Park	KS	66210	(913)	345-4800

This part of Form ADV gives information about the investment adviser and its business for the use of clients.
The information has not been approved or verified by any governmental authority.

Table of Contents

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
1	Advisory Services and Fees	2
2	Types of Clients	2
3	Types of Investments	3
4	Methods of Analysis, Sources of Information and Investment Strategies	3
5	Education and Business Standards	4
6	Education and Business Background	4
7	Other Business Activities	4
8	Other Financial Industry Activities or Affiliations	4
9	Participation or Interest in Client Transactions	5
10	Conditions for Managing Accounts	5
11	Review of Accounts	5
12	Investment or Brokerage Discretion	6
13	Additional Compensation	6
14	Balance Sheet	6
	Continuation Sheet	Schedule F
	Balance Sheet, if required	Schedule G

(Schedules A, B, C, D, and E are included with Part I of this Form, for the use of regulatory bodies, and are not distributed to clients.)

Applicant

Stepp & Rothwell, Inc.

SEC File Number:

801-55489

Date:

6/5/02

Definitions for Part II

Related person — Any officer, director or partner of applicant or any person directly or indirectly controlling, controlled by, or under common control with the applicant, including any non-clerical, non-ministerial employee.

Investment Supervisory Services — Giving continuous investment advice to a client (or making investments for the client) based on the individual needs of the client. Individual needs include, for example, the nature of other client assets and the client's personal and family obligations.

1. A. Advisory Services and Fees. (check the applicable boxes)

For each type of service provided, state the approximate % of total advisory billings from that service.
(See instruction below.)

Applicant:

- | | |
|--|-----|
| <input checked="" type="checkbox"/> (1) Provides investment supervisory services | 50% |
| <input type="checkbox"/> (2) Manages investment advisory accounts not involving investment supervisory services | 0% |
| <input type="checkbox"/> (3) Furnishes investment advice through consultations not included in either service described above | 0% |
| <input type="checkbox"/> (4) Issues periodicals about securities by subscription | 0% |
| <input type="checkbox"/> (5) Issues special reports about securities not included in any service described above | 0% |
| <input type="checkbox"/> (6) Issues, not as part of any service described above, any charts, graphs, formulas, or other devices which clients may use to evaluate securities | 0% |
| <input checked="" type="checkbox"/> (7) On more than an occasional basis, furnishes advice to clients on matters not involving securities | 50% |
| <input type="checkbox"/> (8) Provides a timing service | 0% |
| <input type="checkbox"/> (9) Furnishes advice about securities in any manner not described above | 0% |

(Percentages should be based on applicant's last fiscal year. If applicant has not completed its first fiscal year, provide estimates of advisory billings for that year and state that the percentages are estimates.)

B. Does applicant call any of the services it checked above financial planning or some similar term?

Yes No
☒ ☐

C. Applicant offers investment advisory services for: (check all that apply)

- | | |
|--|--|
| <input type="checkbox"/> (1) A percentage of assets under management | <input type="checkbox"/> (4) Subscription fees |
| <input type="checkbox"/> (2) Hourly charges | <input type="checkbox"/> (5) Commissions |
| <input checked="" type="checkbox"/> (3) Fixed fees (not including subscription fees) | <input type="checkbox"/> (6) Other |

D. For each checked box in A above, describe on Schedule F:

- the services provided, including the name of any publication or report issued by the adviser on a subscription basis or for a fee
- applicant's basic fee schedule, how fees are charged and whether its fees are negotiable
- when compensation is payable, and if compensation is payable before service is provided, how a client may get a refund or may terminate an investment advisory contract before its expiration date

2. Types of Clients — Applicant generally provides investment advice to: (check those that apply)

- | | |
|---|--|
| <input checked="" type="checkbox"/> A. Individuals | <input checked="" type="checkbox"/> E. Trusts, estates, or charitable organizations |
| <input type="checkbox"/> B. Banks or thrift institutions | <input checked="" type="checkbox"/> F. Corporations or business entities other than those listed above |
| <input type="checkbox"/> C. Investment companies | <input type="checkbox"/> G. Other (describe on Schedule F) |
| <input checked="" type="checkbox"/> D. Pension and profit sharing plans | |

3. Types of Investments. Applicant offers advice on the following: (check those that apply)

- | | |
|---|---|
| <p>A. Equity securities</p> <p><input checked="" type="checkbox"/> (1) exchange-listed securities</p> <p><input checked="" type="checkbox"/> (2) securities traded over-the counter</p> <p><input checked="" type="checkbox"/> (3) foreign issuers</p> <p><input checked="" type="checkbox"/> B. Warrants</p> <p><input checked="" type="checkbox"/> C. Corporate debt securities
(other than commercial paper)</p> <p><input checked="" type="checkbox"/> D. Commercial paper</p> <p><input checked="" type="checkbox"/> E. Certificates of deposit</p> <p><input checked="" type="checkbox"/> F. Municipal securities</p> <p>G. Investment company securities:</p> <p><input checked="" type="checkbox"/> (1) variable life insurance</p> <p><input checked="" type="checkbox"/> (2) variable annuities</p> <p><input checked="" type="checkbox"/> (3) mutual fund shares</p> | <p><input checked="" type="checkbox"/> H. Unites States government securities</p> <p>I. Options contracts on:</p> <p><input checked="" type="checkbox"/> (1) securities</p> <p><input type="checkbox"/> (2) commodities</p> <p>J. Futures contracts on:</p> <p><input type="checkbox"/> (1) tangibles</p> <p><input checked="" type="checkbox"/> (2) intangibles</p> <p>K. Interests in partnerships investing in:</p> <p><input checked="" type="checkbox"/> (1) real estate</p> <p><input checked="" type="checkbox"/> (2) oil and gas interests</p> <p><input checked="" type="checkbox"/> (3) other (explain on Schedule F)</p> <p><input checked="" type="checkbox"/> L. Other (explain on Schedule F)</p> |
|---|---|

4. Methods of Analysis, Sources of Information, and Investment Strategies.

A. Applicant's security analysis methods include: (check those that apply)

- | | |
|---|--|
| (1) <input type="checkbox"/> Charting | (4) <input checked="" type="checkbox"/> Cyclical |
| (2) <input checked="" type="checkbox"/> Fundamental | (5) <input type="checkbox"/> Other (explain on Schedule F) |
| (3) <input checked="" type="checkbox"/> Technical | |

B. The main sources of information applicant uses include: (check those that apply)

- | | |
|---|---|
| (1) <input checked="" type="checkbox"/> Financial newspapers and magazines | (5) <input type="checkbox"/> Timing services |
| (2) <input type="checkbox"/> Inspections of corporate activities | (6) <input checked="" type="checkbox"/> Annual reports, prospectuses, filings with the Securities and Exchange Commission |
| (3) <input checked="" type="checkbox"/> Research materials prepared by others | (7) <input type="checkbox"/> Company press releases |
| (4) <input checked="" type="checkbox"/> Corporate rating services | (8) <input type="checkbox"/> Other (explain on Schedule F) |

C. The investment strategies used to implement any investment advice given to clients include: (check those that apply)

- | | |
|--|---|
| (1) <input checked="" type="checkbox"/> Long-term purchases
(securities held at least a year) | (5) <input checked="" type="checkbox"/> Margin transactions |
| (2) <input checked="" type="checkbox"/> Short-term purchases
(securities sold within a year) | (6) <input checked="" type="checkbox"/> Option writing, including covered options,
uncovered options or spreading strategies |
| (3) <input type="checkbox"/> Trading (securities sold within 30 days) | (7) <input type="checkbox"/> Other (explain on Schedule F) |
| (4) <input checked="" type="checkbox"/> Short sales | |

Applicant

Stepp & Rothwell, Inc.

SEC File Number:

801-55489

Date:

6/5/02

5. Education and Business Standards.

Are there any general standards of education or business experience that applicant requires of those involved in determining or giving investment advice to clients? Yes No
☒ ☐

(If yes, describe these standards on Schedule F.)

6. Education and Business Background.

For:

- each member of the investment committee or group that determines general investment advice to be given to clients, or
- if the applicant has no investment committee or group, each individual who determines general investment advice given to clients (if more than five, respond only for their supervisors)
- each principal executive officer of applicant or each person with similar status or performing similar functions.

On Schedule F, give the:

- | | |
|-----------------|--|
| • name | • formal education after high school |
| • year of birth | • business background for the preceding five years |

7. Other Business Activities. (check those that apply)

- ☒ A. Applicant is actively engaged in a business other than giving investment advice.
- ☒ B. Applicant sells products or services other than investment advice to clients.
- ☒ C. The principal business of applicant or its principal executive officers involves something other than providing investment advice.

(For each checked box describe the other activities, including the time spent on them, on Schedule F.)

8. Other Financial Industry Activities or Affiliations. (check those that apply)

- ☐ A. Applicant is registered (or has an application pending) as a securities broker-dealer.
- ☐ B. Applicant is registered (or has an application pending) as a futures commission merchant, commodity pool operator or commodity trading adviser.
- C. Applicant has arrangements that are material to its advisory business or its clients with a related person who is a:
- | | |
|--|--|
| <input type="checkbox"/> (1) broker-dealer | <input type="checkbox"/> (7) accounting firm |
| <input type="checkbox"/> (2) investment company | <input type="checkbox"/> (8) law firm |
| <input type="checkbox"/> (3) other investment adviser | <input type="checkbox"/> (9) insurance company or agency |
| <input type="checkbox"/> (4) financial planning firm | <input type="checkbox"/> (10) pension consultant |
| <input type="checkbox"/> (5) commodity pool operator, commodity trading adviser or futures commission merchant | <input type="checkbox"/> (11) real estate broker or dealer |
| <input type="checkbox"/> (6) banking or thrift institution | <input type="checkbox"/> (12) entity that creates or packages limited partnerships |

(For each checked box in C, on Schedule F identify the related person and describe the relationship and the arrangements.)

- D. Is applicant or a related person a general partner in any partnership in which clients are solicited to invest? Yes No
☐ ☒

(If yes, describe on Schedule F the partnerships and what they invest in.)

Applicant

Stepp & Rothwell, Inc.

SEC File Number:

801-55489

Date:

6/5/02

9. Participation or Interest in Client Transactions. (check those that apply)

Applicant or a related person:

- ☐ A. As principal, buys securities for itself from or sells securities it owns to any client.
- ☐ B. As broker or agent effects securities transactions for compensation for any client.
- ☐ C. As broker or agent for any person other than a client effects transactions in which client securities are sold to or bought from a brokerage customer.
- ☐ D. Recommends to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest.
- ☒ E. Buys or sells for itself securities that it also recommends to clients.

(For each box checked, describe on Schedule F when the applicant or a related person engages in these transactions and what restrictions, internal procedures, or disclosures are used for conflicts of interest in those transactions.)

- 10. Conditions for Managing Accounts.** Does the applicant provide investment supervisory services, manage investment advisory accounts or hold itself out as providing financial planning or some similarly termed services *and* impose a minimum dollar value of assets or other conditions for starting or maintaining an account? ☐ Yes ☒ No

(If yes, describe on Schedule F.)

11. Review of Accounts. If applicant provides investment supervisory services, manages investment advisory accounts, or holds itself out as providing financial planning or some similarly termed services:

- A. Describe below the reviews and reviewers of the accounts. **For reviews**, include their frequency, different levels, and triggering factors. **For reviewers**, include the number of reviewers, their titles and functions, instructions they receive from applicant on performing reviews, and number of accounts assigned each.

Client account reviews are conducted at least quarterly. Special client situations or market conditions may also trigger reviews. Reviews are comprehensive covering all aspects of the clients' financial situation for which the Applicant is providing counseling services. Howard Rothwell and Kathleen Stepp are responsible for all aspects of client account reviews. Advisors are not assigned a fixed number of clients.

- B. Describe below the nature and frequency of regular reports to clients on their accounts.

Comprehensive reports are prepared for each meeting with a client. Reports are updated and provided upon any client's request. Regular reports include balance sheets, income and expense summaries of investment and non-investment assets, tax projections, cash flow projections, retirement projections, estate analyses, and any other reports or analyses particular to the financial counseling services being provided to each specific client.

Clients also receive reports that detail the portfolio holdings, summarize purchases and sales, and measure performance against the client's objectives and relevant issues. Financial planning matters and recommendations for change are also communicated within the context of this update.

Applicant
Stepp & Rothwell, Inc.

SEC File Number:
801-55489

Date:
6/5/02

12. Investment or Brokerage Discretion.

A. Does applicant or any related person have authority to determine, without obtaining specific client consent, the:

(1) securities to be bought or sold?

Yes No
☒ ☐

(2) amount of the securities to be bought or sold?

Yes No
☒ ☐

(3) broker or dealer to be used?

Yes No
☒ ☐

(4) commission rates paid?

Yes No
☒ ☐

B. Does applicant or a related person suggest brokers to clients?

Yes No
☒ ☐

For each yes answer to A describe on Schedule F any limitations on the authority. For each yes to A(3), A(4) or B, describe on Schedule F the factors considered in selecting brokers and determining the reasonableness of their commissions. If the value of products, research and services given to the applicant or a related person is a factor, describe:

- the products, research and services
- whether clients may pay commissions higher than those obtainable from other brokers in return for those products and services
- whether research is used to service all of applicant's accounts or just those accounts paying for it; and
- any procedures the applicant used during the last fiscal year to direct client transactions to a particular broker in return for products and research services received.

13. Additional Compensation.

Does the applicant or a related person have any arrangements, oral or in writing, where it:

A. is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients.

Yes No
☐ ☒

B. directly or indirectly compensates any person for client referrals"

Yes No
☐ ☒

(For each yes, describe the arrangements on Schedule F.

14. Balance Sheet. Applicant must provide a balance sheet for the most recent fiscal year on Schedule G if applicant:

- has custody of client funds or securities; or
- requires prepayment of more than \$500 in fees per client and 6 or more months in advance

Has applicant provided a Schedule G balance sheet?

Yes No
☐ ☒

Schedule F of**Form ADV****Continuation Sheet for Form ADV Part II**

Applicant	SEC File Number:	Date:
Stepp & Rothwell, Inc.	801-55489	1-21-08

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: Stepp & Rothwell, Inc.		IRS Empl. Ident. No.: 48-1117489
Item of Form (identify)	Answer	
1. D.	<p>The advisor's primary service is to provide comprehensive financial planning services to individuals. These services include retirement planning, estate tax planning, income tax planning, cash flow planning, risk management (insurance) planning, and investment planning.</p> <p>In performing its services, Stepp & Rothwell shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. If requested by the client, Stepp & Rothwell shall recommend the services of other professionals for implementation purposes. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Stepp & Rothwell. Clients are encouraged to renew Stepp & Rothwell's financial planning services on an annual basis for the purpose of reviewing/updating Stepp & Rothwell's previous recommendations and/or services. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify Stepp & Rothwell if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/ revising Stepp & Rothwell's previous recommendations and/or services.</p> <p>A copy of Stepp & Rothwell's written disclosure statement as set forth on Part II of Stepp & Rothwell's Form ADV will be provided to each client prior to or contemporaneously with the execution of the <i>Financial Planning & Investment Supervision Agreement</i>. Any client who has not received a copy of Stepp & Rothwell's written disclosure statement at least forty-eight (48) hours prior to executing the <i>Financial Planning & Investment Supervision Agreement</i> shall have five (5) business days subsequent to executing the agreement to terminate Stepp & Rothwell's services without penalty.</p> <p>Neither Stepp & Rothwell nor the client may assign the <i>Financial Planning & Investment Supervision Agreement</i> without the prior written consent of the other party. Transactions that do not result in a change of actual control or management of Stepp & Rothwell shall not be considered an assignment.</p> <p>The advisor provides investment advisory services to individuals as a part of a comprehensive financial planning process. All of the advisor's retainer clients receive investment supervisory services. The advisor monitors actual performance, relative performance, transactions made by the client, and any other changes in the portfolio. These reports aid the advisor in making or adjusting investment recommendations. The advisor provides investment advice by recommending appropriate asset allocation strategies while taking into account the client's risk tolerance level and recommending stock, fixed income securities, mutual funds, portfolio managers, and investment opportunities (real estate or other) to implement these strategies.</p> <p>The advisor's fee schedule is provided to all new clients and is incorporated herein by reference. Fees are billed quarterly in advance and are negotiable. Ancillary financial services are provided at an hourly rate of \$200. Fees charged by the applicant are in addition to any management fees or other expenses charged by any investment company in which client assets are invested.</p> <p>A contract will be deemed to be renewed on an annual basis unless written notification of the client's desire to terminate is received within thirty (30) days prior to the end of a contract year. In the event a client terminates in the middle of a contract year, a client is still responsible for the full annual fee, with the exception of a termination within five (5) business days after the date of entering into a contract when a client will receive a full refund. Stepp & Rothwell, Inc., may also terminate a contract at any time upon written notification to the client, in which event all fees due under the contract will be prorated to the date of termination.</p>	

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of

Form ADV

Continuation Sheet for Form ADV Part II

Applicant

Stepp & Rothwell, Inc.

SEC File Number:

801-55489

Date:

1-21-08

STEPP & ROTHWELL, INC., FEE SCHEDULE

Financial Planning Component:

Year 1 2.0% of Earned Income
 Year 2 1.0% of Earned Income
 Year 3 and beyond 0.5% of Earned Income

Plus: +

Investment Supervision Component:

\$0-\$1,000,000 0.75% of Investment Assets, plus
 \$1,000,001-\$2,000,000 0.50% of Investment Assets, plus
 \$2,000,001 + 0.40% of Investment Assets

The minimum fee per year is \$10,000.

3. K. (3) Leasing, Agricultural, Entertainment, Research and Development, and Financial Investment Partnerships.

3. L. Advice is given regarding hard assets, collectibles, and real estate.

5. Advanced degree or certification in related field and five years relevant professional experience.

6. Kathleen Ann Stepp Born: 1962
 Formal education: BSBA - Accounting, Ohio State University, 1988
 CFP Professional Education Program, College for Financial
 Planning, 1989
 Business background: Vice-President, Stepp & Garrett, Inc./Stepp & Rothwell, Inc.
 8/92 - present Overland Park, KS
 Howard Richard Rothwell Born: 1959
 Formal education: AB - Economics, Dartmouth College, 1981
 MBA - The Wharton School of Finance,
 University of Pennsylvania, 1984
 Business background: Principal, Secretary/Treasurer, Chief Compliance Officer, Stepp &
 5/98 - present Rothwell, Inc., Overland Park, KS
 3/90 - 12/98 Principal, Swarthmore Financial Advisors, Ltd., Media, PA
 Kenneth J. Eaton Born: 1967
 Formal education: BS - Business Administration, University of Missouri, 1994
 CFP Professional Education Program, College for Financial
 Planning, 1997
 CFA, Chartered Financial Analyst, 2002
 Business background: Principal, Stepp & Rothwell, Inc., Overland Park, KS
 10/95 - present
 Dolores R. Otto Born: 1957
 Formal education: BS- Business Administration, University of Saint Mary, Leavenworth,
 KS
 Business background: Director, Fleishman-Hillard, Inc.
 1989 - 3/04 Director of Operations, Stepp & Rothwell, Inc.
 3/04 - 12/07 President, Stepp & Rothwell, Inc.
 1/08 - Present

Complete amended pages in full, circle amended items and file with execution page (page 1).

Schedule F of

Form ADV

Continuation Sheet for Form ADV Part II

Applicant	SEC File Number:	Date:
Stepp & Rothwell, Inc.	801-55489	1-21-08

7. A. B. C.

The advisor provides investment advisory services and furnishes advice to clients on matters not involving securities only as a part of a comprehensive financial planning process. The advisor sells no products nor receives commissions or economic benefit of any kind from anyone other than the client.

9. E.

As discussed below, Stepp & Rothwell has implemented an investment policy relative to personal securities transactions. This investment policy is part of Stepp & Rothwell's overall Code of Ethics which serves to establish a standard of business conduct for all of Stepp & Rothwell's Associated Persons that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

Investment Policy

None of Stepp & Rothwell's advisory representatives may effect for himself or herself or for his or her immediate family (i.e. spouse, minor children) (collectively "Covered Persons") any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Stepp & Rothwell's clients, unless in accordance with the following Firm Procedures.

Firm Procedures

In order to implement Stepp & Rothwell's investment policy, the following procedures have been put into place with respect to Stepp & Rothwell and its Covered Persons:

- (1) If Stepp & Rothwell is purchasing or considering for purchase any security on behalf of Stepp & Rothwell's client, no Covered Persons may transact in that security prior to the client purchase having been completed by Stepp & Rothwell, or until a decision has been made not to purchase the security on behalf of the client; and
- (2) If Stepp & Rothwell is selling or considering the sale of any security on behalf of Stepp & Rothwell's client, no Covered Persons may transact in that security prior to the sale on behalf of the client having been completed by Stepp & Rothwell, or until a decision has been made not to sell the security on behalf of the client.

Exceptions

- (1) This investment policy has been established recognizing that some securities being considered for purchase and sale on behalf of Stepp & Rothwell's clients trade in sufficiently broad markets to permit transactions to be completed without any appreciable impact on the markets of the securities. Under certain circumstances exceptions may be made to the policies stated above. Records of these trades, including the reasons for the exceptions, will be maintained with Stepp & Rothwell's records in the manner set forth above.
- (2) Open-end mutual funds and/or the investment subdivisions which may comprise a variable insurance product are purchased or redeemed at a fixed net asset value price per share specific to the date of purchase or redemption. As such, transactions in mutual funds and/or variable insurance products by Covered Persons are not likely to have an impact on the prices of the fund shares in which clients invest, and are therefore not prohibited by Stepp & Rothwell's Investment Policy and Procedures.

In accordance with Section 204A of the Investment Advisers Act of 1940, Stepp & Rothwell also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Stepp & Rothwell or any person associated with Stepp & Rothwell.

12. A.

Please see the previous responses set forth on this Schedule F to Item 1D. In addition, Stepp & Rothwell's general policies relative to the execution of client securities brokerage transactions are as follows:

Execution of Brokerage Transactions (when applicable). If requested, Stepp & Rothwell will arrange for the execution of securities brokerage transactions for the account through broker-dealers that Stepp & Rothwell reasonably believes will provide "best execution". In seeking best execution, the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services including the value of

Schedule F of**Form ADV****Continuation Sheet for Form ADV Part II**

Applicant	SEC File Number:	Date:
Stepp & Rothwell, Inc.	801-55489	1-21-08

research provided, execution capability, commission rates, and responsiveness. Accordingly, although Stepp & Rothwell will seek competitive commission rates, it may not necessarily obtain the lowest possible commission rates for account transactions.

Consistent with obtaining best execution, transactions for a client's account may be effected through broker-dealers in return for research products and/or services which assist Stepp & Rothwell in its investment decision-making process. Such research generally will be used to service all of Stepp & Rothwell's clients, but brokerage commissions paid by the client may be used to pay for research that is not used in managing the client's account. The account may pay to a broker-dealer a commission greater than another qualified broker-dealer might charge to effect the same transaction where Stepp & Rothwell determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received.

Over-the-Counter (OTC) securities transactions for Stepp & Rothwell's clients are generally effected on an agency basis, which involve the services of two (2) separate broker-dealers: (1) a "dealer" or "principal" acting as market-maker; and (2) the executing broker-dealer that acts in an agency capacity for the client's account. Dealers executing principal transactions typically include a mark-up/down which is included in the offer or bid price of the securities purchased or sold. In addition to the dealer mark-up/down, the client will also incur the transaction fee imposed by the executing broker-dealer. Stepp & Rothwell does not receive any portion of the dealer mark-up/down or executing broker-dealer transaction fee.

Transactions for each client account generally will be effected independently, unless Stepp & Rothwell decides to purchase or sell the same securities for several clients at approximately the same time. Stepp & Rothwell may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Stepp & Rothwell's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among Stepp & Rothwell's clients in proportion to the purchase and sale orders placed for each client account on any given day. To the extent that Stepp & Rothwell determines to aggregate client orders for the purchase or sale of securities, including securities in which Stepp & Rothwell's principals (and/or associated persons) may invest, Stepp & Rothwell shall generally do so in accordance with the parameters set forth in SEC No-Action Letter, SMC Capital, Inc. Stepp & Rothwell shall not receive any additional compensation or remuneration as a result of the aggregation.

The client may direct Stepp & Rothwell to use a particular broker-dealer (subject to Stepp & Rothwell's right to decline and/or terminate the engagement) to execute some or all transactions for the client's account. In such event, the client will negotiate terms and arrangements for the account with that broker-dealer, and Stepp & Rothwell will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Stepp & Rothwell. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

In the event that the client directs Stepp & Rothwell to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Stepp & Rothwell.

In the event that the transactions for a client's accounts are effected through a broker-dealer that refers investment management clients to Stepp & Rothwell, there exists the potential for conflict of interest if the accounts incur higher commission or transaction costs than the accounts would otherwise have incurred had the client determined to effect account transactions through alternative clearing arrangements that may have been available through Stepp & Rothwell.

The advisor's authority to determine securities to be bought or sold and amounts of securities to be bought or sold is limited by each client's Investment Policy Statement and any other limitation that each client may request. The advisor strives to negotiate the lowest possible level of commissions with the client's broker. Brokers are suggested to clients based on the convenience and ease of trade executions at reasonable cost to the client. The advisor suggests only discount brokers and is a participant in Charles Schwab & Co., Inc.'s Investment Advisor Service. Schwab provides the advisor with discounted software and research services,

Schedule F of

Form ADV

Continuation Sheet for Form ADV Part II

Applicant	SEC File Number:	Date:
Stepp & Rothwell, Inc.	801-55489	1-21-08

12. B.

which are not a factor in broker selection. The advisor may elect to purchase bonds through bond brokers in order to obtain a better price for the client and then have the bonds delivered into the client's brokerage account. This practice is called "trading away". This is the only case in which the advisor selects a broker to be used without specific client consent. Charles Schwab & Co., Inc., charges the client a transaction fee for "trading away" through other brokers.

Unless the client directs otherwise, Stepp & Rothwell shall generally recommend that all investment management accounts be maintained at Charles Schwab & Co., Inc. ("*Schwab*"). Factors which Stepp & Rothwell considers in recommending *Schwab* (or any other broker-dealer/custodian) to clients include *Schwab*'s financial strength, reputation, execution, pricing, research, and service. Prior to Stepp & Rothwell providing investment management services, the client will be required to enter into a formal *Financial Planning & Investment Supervision Agreement* with Stepp & Rothwell setting forth the terms and conditions under which Stepp & Rothwell shall manage the client's assets, and a separate custodial/clearing agreement with *Schwab*. Both Stepp & Rothwell's *Financial Planning & Investment Supervision Agreement* and *Schwab*'s custodial/clearing agreement, may authorize *Schwab* to debit the account for the amount of Stepp & Rothwell's investment management fee and to directly remit that management fee to Stepp & Rothwell in accordance with required SEC procedures. The *Financial Planning & Investment Supervision Agreement* between Stepp & Rothwell and the client will continue in effect unless terminated by either party by written notice in accordance with the terms of the *Financial Planning & Investment Supervision Agreement*. Stepp & Rothwell's investment management fee shall be prorated through the date of termination, and any remaining balance shall be promptly refunded to the client.

Proxy Voting Policy. Stepp & Rothwell does not vote client proxies. Therefore, although Stepp & Rothwell may provide investment advisory services relative to client investment assets, Stepp & Rothwell's clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Stepp & Rothwell and/or the client shall correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.