

**CAP ADVISORS LLC**  
**REGISTERED INVESTMENT ADVISORY BROCHURE**

Revised March 10, 2009

*CAP Advisors LLC is a Registered Investment Adviser with the Securities and Exchange Commission (SEC). This Advisory Brochure is a substitute for the SEC Form ADV Part II to provide the disclosure required by the Brochure Rule 204-3 under the Investment Advisers Act of 1940. The SEC has not passed upon or approved the qualifications or business practices of the investment adviser or the information contained herein and in Part II of Form ADV.*

**1. ADVISORY SERVICES AND FEES**

CAP Advisors LLC (CAP) provides investment supervisory services to individual and institutional clients in accordance with each client's investment objectives and risk tolerances. CAP reviews a client's financial information and makes recommendations regarding asset allocations and investment strategies.

*INVESTMENT STRATEGIES*

- A. TACTICAL ASSET ALLOCATION - Tactical asset allocation typically invests in mutual funds. Reallocation of assets generally occurs on a quarterly basis, although the underlying assets are reviewed generally on a weekly basis.
- B. EQUITY/FIXED INCOME SELECTION - Equity/fixed income selection typically invests in equity securities. It uses fixed income securities to create higher yielding portfolios for clients with such an objective. Underlying assets are reviewed generally on a weekly basis.

Once a strategy is approved by the client, CAP manages on a discretionary basis the purchase and sale of securities for the client's account. On a limited basis CAP also may provide non-discretionary advice to clients. There is no guarantee that any strategies used will be effective.

*FEE SCHEDULE*

CAP receives a management fee, charged in arrears, which is due and payable at the end of each billable quarter based on the value of the account(s), calculated as follows:

	<u>Annually</u>	<u>Quarterly</u>
First \$100,000	2.0%	0.5%
Next \$400,000	1.5%	0.375%
Next \$1,500,000	1.0%	0.25%
Over \$2,000,000	0.8%	0.2%

Clients may terminate advisory services at any time without penalty by providing 14 days prior written notice. Client accounts commencing or terminating during a quarter will be charged on a pro rata basis for the proportionate number of days under management during the quarter. Fees may be negotiable.

Fees for advisory services paid to CAP are separate from the fees and expenses charged to shareholders of mutual fund shares by the mutual funds and commissions charged to purchase and sell equities and fixed income securities. A complete explanation of expenses charged by funds is contained in each mutual fund's prospectus. Clients are encouraged to read the fund prospectus.

## **2. TYPES OF CLIENTS**

CAP's clients generally include individuals, self-directed 401(k) assets and IRAs; pension and profit sharing plans; trusts and estates.

## **3. TYPES OF INVESTMENTS**

CAP generally provides investment advice concerning:

- A. Investment company securities including mutual funds and variable annuities.
- B. Equities including exchange listed securities, securities traded over-the-counter and foreign issues.
- C. Fixed income securities including corporate debt, CDs, commercial paper, municipal issues and US government securities.
- D. Options and warrants on corporate securities.
- E. Interests in publically traded partnerships.

## **4. METHODS OF ANALYSIS, SOURCES OF INFORMATION**

### *METHODS OF ANALYSIS*

CAP uses a combination of fundamental, technical and cyclical analyses to research investments.

### *SOURCES OF INFORMATION*

Principal sources of information include business and financial periodicals, annual reports, prospectuses, technical charting services, selected investment texts, continuing education seminars, professional relationships, mutual fund manager interviews, company official interviews, and institutional research of companies, mutual funds and market trends.

### *PORTFOLIO ALLOCATION*

The client, along with the investment adviser representative, select a return objective and investment horizon according to information from the client, generally provided by the Investment Growth Objective and Risk Profile, and Client Confidential Questionnaire. Assets are then allocated according to the following investment objectives as may be appropriate and agreed upon:

1. Provide liquidity through investments in mutual funds or individual securities.
2. Provide growth potential using diversification expected to reduce total portfolio risk.
3. Consider how taxes may impact net returns.
4. Anticipate long-term income needs for retirement or survivors.
5. Consider estate liquidity and transferability.
6. Provide opportunities for total return, subject to the investment horizon of the client, with quarterly or more frequent adjustments if appropriate.

## **5. EDUCATION AND BUSINESS STANDARDS**

CAP requires a minimum of ten years of investment advisory or related experience for investment representatives who determine or give investment advice for clients.

## **6. EDUCATION AND BUSINESS BACKGROUND**

**Jeffrey B. Cohen** (born 2/27/1961)

### *EDUCATION*

- Wharton School of Business, University of Pennsylvania, BSE 1983
- Albert Einstein College of Medicine, 1983-84
- New York University Graduate School of Business Administration, MBA 1988

### *BUSINESS BACKGROUND*

- CAP Advisors LLC – founder, President – 2/2000
- Sloate, Weisman Murray & Company, Inc. ("SWM"), a Registered Investment Adviser - 3/1987 to 2/2000
  - Principal, senior portfolio manager and Co-Chief Investment Officer
  - Co-managed institutional and individual client accounts, as well as the Strong Value Fund (a registered mutual fund) and Amadeus Partners, L.P., a private investment fund.
- Morgan Guaranty Trust – Credit Analyst officer – 6/1984 – 3/1987

**John F. Truhlar** (born 5/17/1941)

### *EDUCATION*

- St. Mary's College, B.A. 1963
- Washington State University, Ph.D, with a physics major and mathematics minor , 1967

### *BUSINESS BACKGROUND*

- CAP Advisors LLC – Chief Investment Officer – Boulder – 9/2006.
- Truhlar Financial Strategies, a Registered Investment Adviser – founder, President - 11/1981 to 9/2006
- Truhlar & Associates – founder, CEO - 10/1977 to 12/2004
- Royal Alliance Associates - Managing Executive - 4/1976 to 6/1998

### *BUSINESS EDUCATION*

- CLU designation - 1976 with course work in economics, finance, accounting, taxation, estate planning, investments, insurance and employee benefits
- Master of Sciences in Financial Services - 1982 . Advanced course work included estate planning, employee benefit planning, pension planning, business tax planning, financial accounting, business valuation and research methods
- Chartered Financial Consultant designation - 1982, with additional course work in wealth accumulation planning and financial counseling
- Chartered Mutual Fund Counselor designation – 1996

**Jolie J. Wolf** (born 1/24/1955)

**EDUCATION**

- University of Colorado, B.S. Finance 1977

**BUSINESS BACKGROUND**

- CAP Advisors LLC – Chief Compliance Officer and Associate Financial Strategist - 9/2006.
- Truhlar Financial Strategies, Inc - Chief Compliance Officer and Associate Financial Strategist 1985 to 2006
- The Mallon Corporation, estate planning firm – 1978-1985
- Royal Alliance Associates, Inc. – Registered Representative - 6/1985 to 6/1998

**7. OTHER BUSINESS ACTIVITIES**

CAP is not engaged in a business other than providing investment advice.

**8. OTHER FINANCIAL INDUSTRY ACTIVITIES OR AFFILIATIONS**

CAP does not participate in other financial industry activities or have other business affiliations.

**9. PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

CAP or individuals associated with CAP may buy or sell securities identical to those recommended to customers for their personal accounts. In addition, related persons may have an interest or position in a security which may also be recommended to a client. As these situations represent a conflict of interest, CAP has adopted a Code of Ethics which governs personal trading by its principal, any employees and their related accounts ("Employees"). Employees are permitted to maintain personal securities accounts provided that such accounts are disclosed and that any personal trading is consistent with applicable law and with the Code of Ethics. Subject to compliance with the Code of Ethics, Employees may buy, sell or hold, for their own personal trading accounts, securities that CAP also may buy, sell or hold for clients. The timing of such Employee trading may or may not coincide with the trading of the same securities for clients.

The Code contains policies and procedures that, among other things:

- prohibit Employees from taking personal advantage of opportunities belonging to clients,
- prohibit trading on the basis of material nonpublic information,
- place limitations on personal trading by Employees and impose preclearance (in certain cases) and reporting obligations with respect to trading, and
- require initial and annual reports of securities holdings and monthly transaction reports by Employees.
- subject any individual not in observance of the above to termination.

CAP's Code of Ethics is available upon request.

**10. CONDITIONS FOR MANAGING ACCOUNTS**

CAP generally does not accept accounts of less than \$100,000 for management.

## **11. REVIEW OF ACCOUNTS**

### *PORTFOLIO REVIEW*

Client portfolio positions are generally reviewed weekly by an investment adviser representative. Triggering factors for further reviews could be a change in investment strategy; securities reaching price objectives; internal financial markets event (e.g. significant market movement) or external event (e.g. sudden change in political environment). Investment adviser representatives may have no more than 180 assigned clients.

### *CLIENT REPORTS*

Clients are provided with monthly statements by the account's custodian and quarterly reports by CAP. Various reports may be available depending upon discussions between a client and CAP. Such reports may include portfolio vs. index performance; asset or sector allocation analysis; reallocation recommendations; account valuations; realized and unrealized gains and losses.

## **12. INVESTMENT OR BROKERAGE DISCRETION**

### *INVESTMENT DISCRETION*

CAP has the authority to determine, without obtaining specific client consent, the amount and type of securities to be bought and sold; the broker or dealer to be used; and the commissions to be paid. The investment strategy, the use or non-use of margin and the custodian relationship are determined as a general policy with each client at the time of account opening. Parameters of advisory discretion are set at that time.

The amount and type of investments are determined for each client based upon such client's financial situation, investment objectives and risk tolerance. In this context, CAP has the flexibility to make a broad range of securities investments. Limitations on CAP's authority are guided by (i) the investment objectives of its clients and (ii) its responsibility to act as a fiduciary when handling clients' accounts.

### *CUSTODIAN / BROKER-DEALER DISCRETION*

In general, transactions occur at the custodian/broker-dealer where the client's account is maintained. It is CAP's general practice to seek the lowest available commission rates commensurate with the assurance of reliable and qualified brokerage services. The majority of client accounts are currently held at TD Ameritrade and at Charles Schwab & Company which CAP believes offer the best combination of execution costs and services for its clients on an overall or transaction basis. CAP may also recommend TD Ameritrade or Charles Schwab as a custodian/broker-dealer for clients' accounts.

In making its selection of (or recommending) brokers-dealers ("Brokers"), CAP may take into account a variety of factors, including, among others, the Broker's reliability, accuracy of recommendations on particular securities, reputation, financial stability, ability to execute trades, nature and frequency of sales coverage, commission rate and responsiveness to CAP. Subject to the foregoing considerations, Brokers selected by CAP also may refer potential clients.

In selecting Brokers, CAP will consider the value of the following, either provided by the Broker, or paid for by the Broker (either by cash payments or by commissions) to be provided by others: brokerage (such as clearing, order routing, custodial and settlement services) and research

products and/or services ("Research"), which may be in written or oral form or on-line (collectively, "Products and Services"). Research may include, among other things, proprietary research from Brokers; research concerning market, economic and financial data, a particular aspect of economics or on the economy in general; statistical information, data on pricing and availability of securities; financial publications; performance measurement services; electronic market quotations, analyses concerning specific securities, companies, industries or sectors; and market, economic and financial studies and forecasts. Although Research and other Products and Services that may be obtained by CAP will generally be used to service all of CAP's clients, a commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account.

In selecting Brokers to execute transactions, CAP need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost to be charged by the Brokers it selects. Because Brokers may be selected based on factors other than "execution only" commission rates, a client may be deemed to be paying for other Products and Services, including Research, provided by the Broker which are included in the commission rate. CAP will make a good faith determination that the amount of commission is reasonable in relation to the value of the Research received, viewed in terms of either the specific transaction or CAP's overall responsibility to its clients.

Generally, CAP aggregates sale and purchase orders of securities held in clients' accounts with similar orders being made simultaneously for other client's accounts, Employee's accounts, or other affiliated accounts. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold and time of purchase during the business day. In such event, the average price of all securities purchased or sold will be determined, and clients may be charged or credited, as the case may be, the average transaction price. Prior to making such aggregated or block trades, CAP will create an allocation worksheet detailing the amount of shares to be executed for each account. If the total number of shares are purchased or sold, all accounts will receive their full allocation of shares. If less than the total number of shares are purchased or sold, shares will generally be allocated on a pro rata basis. At times, it may be less expensive for a client with a relatively small amount of shares to be given a full allocation. In these instances, CAP will endeavor to randomly assign full allocations to those accounts with relatively small share allocations.

Certain clients may direct that their brokerage transactions be effected through certain Brokers. A client who directs CAP to use a specific Broker may pay higher commission rates, forego certain benefits or receive less favorable execution on some transactions than non-directing clients at least in part because the directed Broker may charge higher commissions or provide less favorable service or because such transactions may be excluded from combined orders and any corresponding economies of scale. In such situations, transactions for such clients may also not be executed at the same time as transactions for clients who do not direct CAP to use a specific Broker have been executed. There also may be additional credit and/or settlement risk in using such broker.

### **13. ADDITIONAL COMPENSATION**

CAP participates in the institutional services programs offered by both TD Ameritrade and Schwab. While there is no direct linkage between the investment advice given and participation in these programs, economic benefits are received which would not be received if CAP did not participate in the institutional services programs. These benefits include: receipt of duplicate client confirmations and bundled duplicate statements; access to trading desks serving institutional

services clients exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client accounts; access, for a fee, to an electronic communication network for client order entry and account information; receipt of compliance publications; and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors. The benefits received through participation in these institutional programs may or may not depend upon the amount of transactions directed to, or amount of assets custodied at such firms.

#### *BROKER REFERRALS*

As part of its brokerage selection practices, CAP may use Brokers that have referred or may refer clients to it which may include Brokers that clients direct CAP to use. If the Broker to be used has referred the client or other clients, or may refer clients, to CAP, CAP may have a potential conflict of interest between its duty to obtain best execution for a client and its interest in receiving future referrals. A client who is referred to CAP by a particular Broker may instruct CAP to use that Broker or a different Broker to effect transactions for the client's account. Commission rates charged by Brokers that refer clients to CAP or by Brokers that clients direct that CAP use may be higher or lower than the commission rates charged by other Brokers that CAP uses.

#### *THIRD PARTY REFERRALS*

CAP may pay referral fees to third parties, which may include broker-dealers or other investment advisers, who refer clients to it for advisory services. Generally, such referral fees will be a percentage of the advisory fees received by CAP. All such arrangements will comply with Rule 206(4)-3 under the Investment Advisers Act of 1940, as applicable.

### **14. CUSTODY OF FUNDS**

CAP has no custody of client funds or securities other than when directly debiting client accounts for advisory fees.