



General Information and Disclosure Statement

Scott Sawtelle d/b/a Sawtelle Financial Management is a Registered Investment Advisor, registered with the Securities & Exchange Commission (SEC). He is also a Chartered Financial Consultant, a professional designation awarded by the American College.

PERSONNEL-SCOTT SAWTELLE

I was born in San Antonio in 1948 to Robert T. and Christine Rogers Sawtelle. My father was a lawyer, my grandfather was a lawyer, and my other grandfather owned an insurance agency, *Sawtelle, McAllister and Frederick*, founded in 1917. When I graduated from High School, I did not want to go to college, nor did I want to learn the seven words ("Would you like fries with that, Sir.") I joined the Marine Corps in 1966. Upon arrival in Marine Boot Camp in San Diego, August 18, 1966, I decided that I was ready to go to college, but did not attempt to re-negotiate my contract with the US Marine Corps. I am a Vietnam Veteran, and I served with the 1st Battalion, 4th Marine Regiment, 3rd Marine Division in the Western Pacific Ground Forces. I am the recipient of the Vietnam Commendation Medal, the Vietnam Meritorious Service Medal, and the Presidential Unit Citation. After 13 months of slogging around the northern portion of I corps, Republic of Vietnam, I was honorably discharged, went to college, and graduated from the University of Texas @ Austin in 1972 with a BA in psychology.

I began my financial career in the life insurance business in 1973, where I had the opportunity to learn about tax law and rejection. I received my general securities license in 1975, and completely changed my career from life insurance to selling securities in 1981, joining a firm based in Houston called Financial Synergies Equities, Inc. I became a partner in that firm and when we sold the firm I decided I was tired of selling securities for a commission and wanted to give investment advice only. That was in 1993. I gave up my series 7 securities license and became registered with the Securities and Exchange Commission (SEC) as an Investment Advisor. My business is operated as a sole proprietorship. I am a Chartered Financial Consultant, a designation I received from the American College after taking and passing 10 tests regarding financial planning and investments.

I have a staff of four people: Mr. Charles Sawtelle, Marketing, Service, and Trading, BA, UT –Austin, 2002, Ms. Kristen Peters, Computer Operator, Ms. Stephanie Astran, Marketing Director, and Mrs. Teena, Varghese, Operations Officer, BBA, Accounting, Univ. of Texas San Antonio, and Bachelor of Commerce, Accounting and Information Systems Degree, University of Kerala, India. We currently manage over \$125,000,000 of retirement and individual assets. Of that, over \$75,000,000 are 403b managed accounts.

HOW I OPERATE (SERVICES AND FEES)

I am an investment advisor and that is my primary function and only source of income. We are capable of doing complete financial planning services, but prefer not to, due to our time commitments to investment management and trading. We are able to do a portion of a financial plan, such as retirement planning as part of our services. The price for that is included in your portfolio management fee. This plan will be done informally and given to you orally, and repeated in subsequent meetings as needed. It is not our practice to do a financial plan, but rather, only investment advice or management. My minimum client account is \$250,000, but I will accept lesser amounts on a discretionary basis.

Investment Advisory Fees

As part of my investment advisory services, I will manage your account on a discretionary basis. Accordingly, I will be authorized to perform various functions without your further approval. Such functions include the determination and amount of securities to be purchased/sold, the custodian to be used, and the commission rates to be paid. Once the

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portfolio is constructed, I will provide continuous supervision and re-balancing of the portfolio as changes in market conditions require and according to our system of investment management.

The annual fee begins at 1%, and is reduced as noted below as assets under management increase. The fee is paid quarterly in advance, based on the value of the assets under management on the last day of the preceding quarter. If your agreement with Sawtelle Financial Management is terminated by either party, any pre-paid fees will be refunded on a pro-rated basis. If your account has a market value less than the sum of the beginning capital contribution, plus subsequent contributions at the end of each calendar quarter, you will not be charged a management fee for that quarter, and for any subsequent quarters, should the account balance on billing day be less than the sum of contributions.

<u>Assets Under Management</u>	<u>Annual Fee Amount</u>
\$250,000-\$1,000,000	1%
Next \$1,000,000	.65%
Next \$1,000,000 and above	.25%

If you wish to implement my investment advice by purchasing securities, you must custody your accounts at Fidelity Investments, TIAA-CREF, or Ameritrade where we maintain download capability and trading agreements. **We receive no remuneration from any of these custodians. We do receive trading software from Fidelity. I do not sell mutual funds, variable annuities, variable life insurance, life insurance or general securities for a commission.** I am licensed to sell life/health/disability, but do not wish to do so. If a client needs life insurance in estate planning situations or family income situations, they are referred to a life insurance agent. In this case, I may receive a commission from the sale of a life insurance product, but I am not involved in the sale, promotion, or recommendation of life insurance products. I do not receive any commissions from the purchase or sale of stock or mutual funds, or receive any reimbursement from any mutual fund or Investment Company in any fashion or form, other than the aforementioned Fidelity proprietary "trading software." For stock trades, we use the aforementioned custodians to execute any trades on stock. Those custodians will receive any commission paid, and I have no pecuniary affiliation with any "discount" broker or custodian. I use Fidelity Registered Investment Advisor Group as our major custodian of client assets. Fidelity has over 4,500 "No Transaction Fee" mutual funds for the "buy" side, and does have "short-term" surrender charges on certain funds held less than 90 days and 30 days. We also use Fidelity and TIAA-CREF as our custodian for all 403b business. Additionally, please know that both Fidelity Investments and Tiaa-CREF have a mutual fund expense charge, which varies from fund to fund. Unlike my fee, which is paid directly out of your account, this fee is deducted from the entire mutual fund, on a monthly basis. These charges vary from .10% (10 basis points) for Fidelity Index funds, .18% or slightly more for Vanguard Index funds, to 1.27% annually for Fidelity International Small Cap Stock. The average charge is slightly less than 1% annually. The TIAA-CREF funds vary from .36% annual operating expense to .83% annual operating expense, approximately. The TIAA Real Estate Fund is .60%, for example.

Ameritrade is our custodian for some stock trades. At Ameritrade, trading costs are \$10.99 for market orders and limit orders. Mutual fund trading costs at Ameritrade are \$18.00, unless using their No Transaction Fee Funds, which we attempt to use as much as possible. Trading costs are kept at a minimum. I have no affiliation with any outside brokers, pay no fees to any outside brokers or investment advisors who are not a part of my investment advisory, and all accounts are treated in a similar manner with similar, if not identical fees, based on the size of the account

GENERAL INFORMATION

Most of my clients are individuals, professionals, corporations, university professors, and qualified retirement plans. I give advice on (but not necessarily recommend) most types of securities, ranging from government bonds, mutual funds, exchange traded funds, stocks, municipal bonds, unit investment trusts, etc. The primary investment method is technical analysis using current supply and demand information provided by Dorsey Wright & Associates. My main sources of financial information are the Dorsey-Wright Website, a Point & Figure methodology service I subscribe to, Investors Business Daily, No-Load FUND X, ALL STAR Fund Trader, The Fidelity Monitor, and GRANT'S Interest Rate Observer, research materials prepared by others, corporate rating services, books, and investment and educational seminars that I pay to attend. My investment strategy is based on technical analysis, specifically Point & Figure Charting, and fundamental information, combined with a measurement of the client's propensity for risk. These are the steps I take in implementing this strategy:

Step One:

What to Do: I use the Point & Figure methodology of technical analysis, along with several important technical indicators,

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to determine if it is time to be playing "offense or defense" in the market. These indicators essentially take "a pulse" of the market. How to Do It: **DAILY**, I review all of the Point & Figure Technical Indicators provided to me by Dorsey, Wright & Associates. This is done to verify if the market is on offense, in wealth accumulation mode, or if on defense, wealth preservation tactics are warranted.

Step Two:

What to Do: Determine which industry sectors, asset classes, styles, and countries suggest offense or defense (and what their respective field position is). This step, taken each week, is done to keep a list of "favored sectors, asset classes, styles, etc." This list consistently keeps in our mind the strong or weak areas of the market. The "favored sectors" are defined by several technical factors, including several relative strength measurements. If I look at a stock/mutual fund/exchange traded fund that is not in a "favored sector" then we know that the stock/mutual fund/exchange traded fund, as good as its individual characteristics may be, is going to be fighting an uphill battle. It is not that forward progress cannot be made; it is just that other stocks/mutual funds/ETF's will have a much easier time making forward progress. **How to Do It:** Daily, these readings are updated for me by Dorsey Wright & Associates.

Step Three:

What to Do: Create and maintain an inventory of opportunities to work from. I use a number of sources available to determine those stocks deemed fundamentally sound, including Dorsey Wright, Investors Business Daily, Morningstar, No-Load FUND X, and other research facilities. In this step I am determining "What" (specific stock/mutual fund/exchange trades fund/index) to buy or in some cases, what to short. **How to Do It:** Once again, I use various research facilities, listed above, or other fundamental sorting methods I deem reliable. Then I separate the fundamental list (inventory) by sector. I maintain a Point & Figure chart on those stocks I deem the very best opportunities (again separating them by sector). I believe sector rotation is the key to success.

Step Four:

What to Do: I review the prospective opportunities on a technical basis (i.e. review them using the Point & Figure charts) to cull out those controlled by "demand", that is, those that demonstrate the best technical picture. This will narrow the prospective opportunity inventory down to those issues, asset classes, sectors, and investment styles with the best probability of moving higher. I also do the same for those areas of investment that are demonstrating the "worst" characteristics for those interested in participating in the downside (i.e. shorting stocks). In this step I am determining "When" to buy a specific stock, mutual fund, or Exchange Traded Fund. **How to Do It:** I keep my lists of charts, view them daily and updating them as to changes needed. I also read the Dorsey Wright & Associates' Daily Equity Report each and every day. It presents a multitude of technically sound ideas and changes each day.

Step Five:

What to do: I conduct a risk management analysis. This step, which is a most often overlooked step by investors, other advisors, and Wall Street, is actually the most important step! This is when I create a buy and sell strategy for investments that we deem meet the client's investment objectives and the criteria listed above in the first four steps. **How to Do It:** It is not only important to know when or what to buy, but an exit strategy must also be developed. What will we do if the investment does not work as expected? What should we expect for returns? Where do the stock/mutual fund/ETF run into serious price resistance? As such, where do we take our profits or take other defensive action? Does this investment warrant the use of a trailing stop? These are just a few of the questions asked this important step in the process. We want to know how we are going to react and what considerations need to be made if the market or our investment thesis changes, i.e. whether it is economic numbers, a break in technical picture, a fundamental change in the industry or company, we want to be prepared.

Step Six:

What to do: Consistent follow-up. **How to Do It:** I continuously monitor prevailing market conditions and the different individual stocks involved and the ones under consideration. This step dovetails with STEP FIVE. However, this step also incorporates the use of various different possible strategies that can be employed at different times, considering the prevailing conditions. This step can incorporate the use of several different types of stock and index option strategies.

Additional Information

I have a specialized area of knowledge in designing qualified retirement plans. These plans are structured to maximize the benefits for shareholders, and minimize employee costs, if so desired. Non-owner highly compensated employees can be included, or excluded, as desired by owners.

I have specialized knowledge in the area of the UT System Optional Retirement Plan, and the State of Texas Optional Retirement Plan, and 403b plans in general.

I do not compensate anyone directly or indirectly for client referrals.

Participation or Interest in Client Transactions

I have in my own portfolio many of the same securities that I recommend to clients. There is no conflict of interest as the securities are widely held, and I do not sell securities for a commission. I have adopted a Code of Ethics, the full text of which is available to clients upon request. I have several goals in adopting this Code. First, I desire to comply with all applicable laws and regulations governing my practice and I have determined to set forth guidelines for professional standards, under which all associated persons of Sawtelle Financial Management are to conduct themselves. I have set high standards, the intention of which is to protect client interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith and fair dealing with clients. All associated persons are expected to adhere strictly to these guidelines, as well as the procedures for approval and reporting established in the Code of Ethics primarily related to personal securities transactions, and violations of the Code. In addition, Sawtelle Financial Management maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Sawtelle Financial Management or any person associated with Sawtelle Financial Management.

Review of Accounts/Reports to Clients

I review managed accounts daily. I prepare and mail quarterly client account reports on all assets managed by me. Additionally, clients will receive quarterly statements directly from their account custodian(s).

Investment or Brokerage Discretion

When I manage client accounts on a discretionary basis, I limit the discretionary authority by prohibiting myself from having the right or power to withdraw any money/funds/securities from client accounts. **I do not custody client assets, and have no desire or ability to access client assets for my own personal use.** In addition, trading in the accounts will be limited to general securities, mutual funds, and government securities. My discretionary authority is subject to the client's consent and may further be subject to specified investment objectives, guidelines, and/or conditions imposed by the client.

General Information on Fees

Advice I offer will involve investment in mutual funds, Exchange Traded Funds (ETF's,) and individual stocks. Clients are hereby advised that all fees paid to Sawtelle Financial Management for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and Exchanged Traded Funds (not available in 403b accounts) as described in each fund's prospectus to their shareholders. These fees will generally include a management fee and other fund expenses. Further, there may be transaction charges involved when purchasing or selling securities. I do not share in any portion of the brokerage fees/transaction charges imposed by the custodian holding the Client funds or securities. The Client should review all fees charged by mutual funds, Exchange Traded Funds, Sawtelle Financial Management, and others to fully understand the total amount of fees to be paid by the Client

Proxy Voting

I will not be required to take any action or render any advice with respect to voting of proxies solicited by, or with respect to, the issuers of securities in which Client assets may be invested. On rare occasions and only at the Client's request, I may offer Clients advice regarding corporate actions and the exercise of proxy voting rights.

Aggregation of Trades

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I may aggregate orders with respect to a security if such aggregation is consistent with achieving best execution for the various client accounts. When orders are aggregated, each participating account receives the weighted average share price for all transactions in a particular security effected to fill such orders on a given business day and transaction costs are shared pro rata based upon each accounts participation in the transaction. Allocations of orders among client accounts must be made in a fair and equitable manner. SFM cross checks and verifies every trade that is made, but occasionally, trading errors are made. Clients will not be responsible or be required to pay for any trading errors made in their accounts. Occasionally, the reversal of a Block Trading error results in a gain. Those gains will be kept in the trading account and will not be allocated to client accounts.

Privacy Policy

We view protecting our customers' private information as a top priority and, pursuant to the requirements of the Gramm-Leach-Bliley Act; we have instituted policies and procedures to ensure that customer information is kept private and secure.

We do not disclose any nonpublic personal information about our customers or former customers to any non-affiliated third parties, except as permitted by law. In the course of servicing a client's account, we may share some information with its service providers, such as transfer agents, custodians, broker-dealers, accountants, and lawyers.

We restrict internal access to nonpublic personal information about the client to those employees who need to know that information in order to provide products or services to the client. As emphasized above, it has always been and will always be our policy never to sell information about current or former customers or their accounts to anyone. It is also our policy not to share information unless required to process a transaction, at the request of a customer, or as required by law.

A copy of our privacy policy notice will be provided to each client prior to, or contemporaneously with, the execution of the advisory agreement. Thereafter, we will deliver a copy of the current privacy policy notice to our clients on an annual basis.


ACKNOWLEDGEMENTS

This is to acknowledge that I/we have read and understood this GENERAL INFORMATION & DISCLOSURE STATEMENT of Scott Sawtelle, ChFC, Registered Investment Advisor.

Signature _____

Signature _____

Date _____



Scott Sawtelle, Registered Investment Advisor