



## Form ADV Part 2A

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Date of Brochure: 3/28/2011

This brochure provides information about the qualifications and business practices of Ludeman Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (360) 738-9600. 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 Ludeman Capital Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration does not imply a certain level of skill or training

## Item 2: Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated 3/28/2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Danette Ivie at (360) 738-9600. Our Brochure is also available on our web site [www.ludemancapital.com](http://www.ludemancapital.com) free of charge.

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## Item 4: Advisory Business

### A. Description of the Advisory Firm

Ludeman Capital Management, Inc. (LCM) is an SEC-registered investment advisor (RIA) and was incorporated on January 1, 1995. Stephen Ludeman is the principle owner of the company.

### B. Types of Advisory Services Offered

We offer discretionary portfolio management services, financial planning and market timing signals to our clients as well as act as a solicitor for other RIAs. One specialty of our discretionary money management service is the use of quantitatively-driven investment systems that attempt to maximize the relationship between reward and risk in a trade. These systems can either be used individually or coupled with other more traditional investments to create a more diversified portfolio. Retirement planning is the primary focus of our planning services.

### C. Client Tailored Services and Client Imposed Restrictions

Our customized retirement plans are tailored to the individual needs and goals of our clients and the client allocation between different investment programs is based on a client's risk tolerance and goals among other factors. A client may impose reasonable restrictions on investing in certain securities or types of securities.

### D. Wrap Fee Programs

We do not participate in any wrap fee program.

### E. Amount of Client Assets Managed

We manage \$44,682,934 in client assets on a discretionary basis in 407 accounts and \$14,098,350 on a non-discretionary basis in 138 accounts as of 3/22/2011.

## Item 5: Fees and Compensation

### A. Fee Schedule

We are compensated for our financial planning either through an hourly rate not to exceed \$500 per hour or on a fixed-fee basis not to exceed \$20,000. Fees are agreed upon in advance, in writing, depending upon the degree of planning desired and the estimate of hours for service and are negotiable. Fees paid for our market timing signal are negotiable. The fee schedule for managed portfolios other than the LCM Bond Portfolio and any of the Frontier portfolios are according to the fee schedule shown below:

Assets Under Discretionary Management:	Annual Fee	Quarterly Fee
From \$0 to \$999,999	2.35%	0.5875%
Additional assets from \$1,000,000 to \$4,999,999	2.00%	0.50%
Additional assets from \$5,000,000 and up	As negotiated	

The fee schedule for the LCM Bond Portfolio is:

Assets Under Discretionary Management:	Annual Fee	Quarterly Fee
From \$0 to \$4,999,999	1.20%	0.30%
Additional assets from \$5,000,000 and up	As negotiated	

The fee schedule for all Frontier portfolios is:

Assets Under Discretionary Management:	Annual Fee	Quarterly Fee
From \$0 to \$4,999,999	1.60%	0.40%
Additional assets from \$5,000,000 and up	As negotiated	

We also may, at our sole discretion, charge an administrative fee of \$50 for each purchase or sale of a security that is made at the direction of a client.

A set-up fee of up to \$500 may be charged at the time an account is set up. This fee is negotiable and agreed upon at the time a new account is opened.

At times we refer clients to third party managers and receive compensation from those managers. The compensation received by us is normally based upon the fee paid by the client to the third party adviser. In all cases the client will be advised of all fees to be paid to the third party adviser and to LCM.

## **B. How Fees are Paid**

Clients may choose to either have their fees deducted from their account or to be billed for fees incurred. Fees are charged quarterly.

## **C. Third Party Fees**

In addition to the fees paid to us listed above, clients may also pay custodian, mutual fund or ETF fees as well as brokerage and other transaction costs. Please see section 14 for more information on brokerage practices.

## **D. Fees Paid in Advance**

Discretionary portfolio management fees are paid in advance each calendar quarter. Fees are calculated as a percentage of the closing value of a client's account on the last day of the preceding calendar quarter. For client accounts initially set up in the middle of a calendar quarter, fees will be taken in arrears based on the balance of the account on the last day of the quarter in which the account was opened and will be pro-rated based on the number of calendar days that the client's account was open during the quarter. In the event that the Client's account is terminated, fees that were collected but yet unearned will be returned on a pro-rated basis.

## **E. Compensation for the Sale of Investment Products**

An investment advisor representative of LCM may also be a registered representative of Pacific West Securities, Inc. a Broker/Dealer based in Renton Washington. As a registered representative of Pacific West Securities they may receive a percentage of commissions charged by Pacific West Securities on securities transactions that they complete through Pacific West Securities. In addition, representatives are also involved in selling insurance products on a commission basis as appointed agents of various insurance agencies.

#### 1. Conflict of Interest

This practice of selling securities and insurance products presents a potential conflict of interest and gives LCM and our investment advisor representatives an incentive to recommend investment products based on the compensation received rather than on a client's needs. We address this potential conflict of interest by disclosing our potential conflict of interest, disclosing all fees and commission received for selling a product, supervision of advisors and creating both company policies and a company culture that hold the interests of the client in the highest regard.

2. Clients have the option to purchase investment products that LCM recommends through other brokers or agents that are not affiliated with us.

3. Less than 50% of our revenue from advisory clients results from commissions for the sale of investment products.

4. We do not charge advisory fees on assets sold in which we received a commission.

## **Item 6: Performance-Based Fees**

Neither LCM nor any of our supervised persons accepts performance-based fees.

## **Item 7: Types of Clients**

We generally provide services to the following types of clients:

- Individuals
- High Net Worth individuals
- Pension and Profit Sharing Plans
- Charitable organizations
- Corporations or Business Entities



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

### **A. Method of Analysis and Investment Strategies**

Our primary methods of analysis include Technical Analysis and Charting Analysis.

Technical Analysis involves the analysis of past market data including but not limited to price and volume data. We primarily focus on quantitative systems and methods utilizing Technical Analysis. Charting Analysis is similar but focuses on a visual analysis of the financial markets using price and volume charts. We may also select third-party managers to run strategies in our portfolio and we use research reports and mathematical analysis in the selection of these managers.

The strategies we use include both long-term trading and frequent trading. Our investment strategies invest in both mutual funds and Electronically Traded Funds (ETFs).

**Investing in securities involves risk of loss that clients should be prepared to bear.**

### **B. Material Risks Involved**

Material risks of technical and charting analysis include the risk that in the future markets will behave materially different than they have in the past leading to poor trades and loss of money in the accounts over an extended period of time. Even if markets do behave consistently as they have in the past money can be lost using technical and charting analysis as losses can occur any time you invest in financial markets. Some of our primary strategies include frequent trading. Frequent trading of securities can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

Our buy-and-hold stock and bond portfolios have a material risk of losing value if stock or bond markets experience declines due to the highly correlated nature between most buy-and-hold strategies and the general stock and bond market indices.

**Investing in securities involves risk of loss that clients should be prepared to bear.**

### **C. Risks of Specific Securities Used**

Beyond the risks of general domestic and/or international equity and currency markets we at times may use other securities that pose unusual risks.

Some of our portfolios will take positions in mutual funds and ETFs that are designed to return double the return of a specified index (these are referred to as “leveraged products”). If an investor is in these leveraged products and the corresponding index loses value on any given day the investor will experience approximately double the loss that day than if they were in an investment that attempted to mimic the index on an unleveraged basis.

In addition, some of portfolios will invest in inverse mutual funds or ETFs or double inverse mutual funds or ETFs. These inverse and double inverse mutual funds and ETFs are designed to move in the opposite directions of a financial market index. If an investor is invested in a non-leveraged inverse mutual fund or ETF the position can experience a loss equal to approximately the gain of the index it is tracking if the corresponding index goes up in value on any one day. If an investor is invested in a double inverse mutual fund or ETF (a leveraged position) the position can experience a loss of approximately double the gain of the index it is tracking if the corresponding index goes up in value on any one day.

Most double leverage long and inverse mutual funds and ETFs are designed to track the index over a one day period. If we use these leveraged instruments over a time period longer than one day there is a risk that the end result may be materially different than double the return of the targeted index due to daily compounding rates of return.

We also may invest in exchange-traded notes (ETNs). ETNs are designed to provide investors access to the returns of various market benchmarks. The returns of ETNs are usually linked to the performance of a market benchmark or strategy, less investor fees. When an investor buys an ETN, the underwriting bank promises to pay the amount reflected in the index, minus fees upon maturity. Thus ETNs have an additional risk not borne by an ETF: upon any reduction of credit ratings or if the underwriting bank goes bankrupt, the value of the ETN will be eroded.

**Investing in securities involves risk of loss that clients should be prepared to bear.**

## **Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

## **Item 10: Other Financial Industry Activities and Affiliations**

### **A. Broker Dealer Registration as a Broker/Dealer or Broker/Dealer Registered Representative**

Stephen Ludeman, CEO, Ben Scellick, President, and most of LCM's investment advisor representatives are also registered representatives of Pacific West Securities, Inc.

### **B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Advisor Registration**

Neither LCM nor any of its associated persons are registered as a FCM, CPO or CTA.

### **C. Material Relationships to our Advisory Business and Potential Conflicts of Interest**

Most of our Investment Advisor Representatives are also registered representatives of Pacific West Securities, Inc. as well as appointed with various insurance companies. We also have a solicitor relationship with various other investment advisers. When appropriate we may refer clients to another investment advisor for money management and be paid a solicitor's fee from the other investment advisor for doing so. Our solicitor's fee is disclosed to the client at the time of the transaction. These outside relationships may present a material conflict of interest with clients as an investment advisor representative may have an incentive to recommend an investment with the highest commission or fee product and not the product that is most suitable for the client. We mitigate this risk with company policies and procedures and a corporate culture that reinforces placing the client's interest above those of LCM or its investment advisor representatives, disclosure of all fees and commissions paid by the client and supervision of each advisor.

**D. Selection of other investment advisors and how we receive compensation**

When appropriate we may refer clients to another investment advisor for money management and be paid a solicitor's fee from the other investment advisor for doing so. Our solicitor's fee is disclosed to the client at the time of the transaction. These outside solicitor relationships may present a material conflict of interest with clients as an investment advisor representative may have an incentive to recommend an investment with the highest fee and not the product that is most suitable for the client. We mitigate this risk with company policies and procedures and a corporate culture that reinforces placing the client's interest above those of LCM or its investment advisor representatives, disclosure of all fees and commissions paid by the client and supervision of each advisor.

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

**A. Brief description of LCM Code of Ethics**

We have a written code of ethics that covers employee standards of conduct, nonpublic information, acceptance of gifts, service as director for an outside company, outside business interests, employee trading policies and restrictions, reports of personal securities, firm review of personal transactions, record keeping requirements and code of ethics and personal trading policy violations and sanctions.

We will provide a copy of our code of ethics to any client or prospective client upon request.

**B. Recommendations of Securities with a Material Financial Interest**

We do not recommend that clients buy or sell any securities in which a related person to LCM has a material financial interest.

**C. Investing in the Same Securities as Clients**

LCM employees may, from time to time, invest in the same securities that we recommend to clients. This may present a conflict of interest in that a client purchase of a security held by an LCM employee may cause the price of that security to appreciate.

Also, in the investment of certain private investments the LCM employee may learn of certain benefits or risks related to the security before the client learns of them and act on that knowledge for their personal account. LCM mitigates these risks by reviewing employee securities transactions quarterly, creating and enforcing policies and procedures related to putting client interests ahead of employee's interest in trading and holding securities and creating a corporate culture that emphasizing putting the client's interest first.

#### **D. Trading Personal Securities at or about the Same Time as Client Securities**

We may, at times, trade a security for an employee or related person at or about the same as we trade the same security for a client's account. This could create a conflict of interest in that if a security was traded for an employee or related person before a client the employee or related person could receive a more favorable price for that security than the client. LCM mitigates this risk by requiring all purchases or sales of securities for employees or related person to occur at the same time as our clients' within a block trade or after the purchase or sale has occurred in the clients' account.

## **Item 12: Brokerage Practices**

### **A. Factors Considered in Recommending Broker/Dealers for Client Transactions and their Compensation**

#### **1. Research and Other Soft Dollar Benefits**

We do not receive research or other products or services other than execution from a broker/dealer in connection with client security transactions.

#### **2. Brokerage for Client Referrals**

We do not receive referrals from a broker/dealer.

#### **3. Directed Brokerage**

We do not routinely recommend, request or require that a client direct us to execute transactions through a specified broker/dealer. We do permit clients to direct brokerage but if a client wants to direct brokerage we hold the right to discontinue the client relationship if we do not want to use the brokerage they direct us to. If brokerage

is directed we may not be able to achieve most favorable execution and it may cost clients more money.

**B. Aggregating Client Purchase or Sales of Securities**

Whenever possible we aggregate the purchase or sale of securities for client accounts.

## **Item 13: Review of Accounts**

**A. Review of Client Accounts**

Client accounts are reviewed by an investment advisor representative of LCM at least twice a year but usually more often.

**B. Factors That Trigger a Non-Periodic Review of Client Accounts**

Accounts may be reviewed on a non-periodic basis due to client request, major client life event or unusual market or investment activity.

**C. Frequency of Regular Reports Provided to Clients**

Clients are sent regular account statements at least quarterly from the custodian that is holding their funds.

## **Item 14: Client Referrals and Other Compensation**

**A. Economic Benefit from Non-Clients for Providing Advice**

We do not receive any economic benefit from non-clients for providing investment advice or other advisory services to our clients.

**B. Compensation for Referrals**

We do not compensate any person directly or indirectly who is not a supervised person for client referrals.

## **Item 15: Custody**

We do not take custody of client funds or securities.

## **Item 16: Investment Discretion**

We accept discretionary authority to manage securities on behalf of clients. Clients have the right to place limitations on this authority. Clients signs paperwork to grant a limited power of attorney to LCM before we assume authority over an account,

## **Item 17: Voting Client Securities**

We have the authority to vote client securities. Our voting policies and procedures include the responsibility for voting consistent with the best economic interests of the clients, consideration of factors related to the investment objective of the affected portfolio and any material potential conflict of interest between LCM and clients. If there appears to be a material potential conflict of interest between LCM and the clients, LCM will abstain from voting and the conflict will be disclosed to the affected clients within 24 hours by phone, email or fax. Clients may direct our vote in a particular solicitation by directing us to do so in writing. Clients may obtain information from us about how we voted their securities upon request.

## **Item 18: Financial Information**

**A. Prepayment of more than \$1,200 six months or more in advance**

We do not require prepayment of more than six month in advance and are thus not required to include a balance sheet.

**B. Financial Conditions that are Likely to Impair Ability to Meet Contractual Commitments to Clients**

There are no financial conditions that are likely to impair our ability to meet contractual commitments to clients.

**C. Bankruptcy Petition**

We have not been the subject of a bankruptcy petition at any time in the past ten years.

## **Item 19: Requirements for State-Registered Advisors**

**A. Principal Executive Officers and Management Persons**

Stephen Paul Ludeman, CFP® – Chief Investment Officer, Chief Executive Officer  
Bachelor of Psychology, 1977, Seattle Pacific University, Seattle, WA  
Masters of International Business Management, 1989, American Graduate School of International Management,  
Investment Advisor at LCM, 1995 to Present

Benjamin Micah Scellick, CPA - President  
Bachelor of Arts – Accounting, 2002, Bachelor of Arts – Finance, 2002, Western Washington University, Bellingham, WA  
Registered Representative, 2004 – Present

Jonathan Paul Ludeman, CFP® – Senior Financial Advisor  
Bachelor of Arts – Business & Economics, 2004, Wheaton College, Chicago, IL  
Registered Representative, 2005 – Present

**B. Other Business Activities**

See Form ADV Item 6 regarding other business activities



**C. Performance-Based Fees**

We currently are not compensated with performance-based fees.

**D. Involvement in Arbitration, Civil, self-regulatory organization or administrative proceedings**

Neither we nor a management person has been found liable in an arbitration claim or civil, self-regulatory organization or administrative proceeding involving an investment or an investment-related business or activity, fraud, false statements or omissions, theft, embezzlement or other wrongful taking of property, bribery, forgery, counterfeiting, or extortion, or dishonest, unfair or unethical practices.

**E. Other relationships with issuer of securities**

Neither LCM nor any of our management persons have a relationship with any issuer of securities that is not listed in Item 10.C of Part 2A.