

Firm Brochure

(Part 2A of Form ADV)

John Shao Portfolio Management, Inc.

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This brochure provides information about the qualifications and business practices of John Shao Portfolio Management, Inc.. If you have any questions about the contents of this brochure, please contact us at: (972) 608-5374, or by email at: john@john-shao.com. 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 John Shao Portfolio Management, Inc. is available on the SEC's website at www.adviserinfo.sec.gov

June 14, 2011

Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

Material Changes since the Last Update

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: (972) 608-5374 or by email at: john@john-shao.com.

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Advisory Business

Firm Description

John Shao Portfolio Management, Inc. was founded in 1998.

John Shao Portfolio Management, Inc. provides personalized confidential investment management to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and small businesses. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, investment management, education funding, and retirement planning.

John Shao Portfolio Management, Inc. is strictly a fee-only investment management firm. The firm does not receive commissions for purchasing or selling annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

John Shao Portfolio Management, Inc. does not act as a custodian of client assets. The client always maintains asset control. John Shao Portfolio Management, Inc. places trades for clients under a limited power of attorney.

Periodic reviews are communicated to provide reminders of the specific courses of action that need to be taken. More frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

The initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to which investment management may be beneficial to the client.

Principal Owners

John Shao is a 100% stockholder.

Types of Advisory Services

John Shao Portfolio Management, Inc. provides investment supervisory services, also known as asset management services; manages investment advisory accounts not involving investment supervisory services; furnishes investment advice through meetings.

As of June 14, 2011, John Shao Portfolio Management, Inc. manages approximately \$62,500,000 in assets for approximately 50 clients. Approximately \$62,000,000 is managed on a discretionary basis, and \$500,000 is managed on a non-discretionary basis.

Tailored Relationships

The goals and objectives for each client are documented in our client relationship management system. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

Investment Management Services Agreement

Most clients choose to have John Shao Portfolio Management, Inc. manage their assets in order to obtain ongoing in-depth advice. The scope of work and fee for an Investment Management Services Agreement is provided to the client in writing prior to the start of the relationship.

The Investment Management Services Agreement fee is based on a percentage of the investable assets according to the following schedule per annum:

- 1.96% on the first \$500,000;
- 1.76% on the next \$500,000 (from 500,001 to 1,000,000);
- 1.56% on the next \$2,000,000 (from \$1,000,001 to \$3,000,000);
- 1.36% on the next \$3,000,000 (from \$3,000,001 to \$6,000,000);
- 1.16% on the next \$4,000,000 (from \$6,000,001 to \$10,000,000);
- and
- 0.96% for assets over \$10,000,000.

The minimum annual fee is \$10,000 and is not negotiable. Current client relationships may exist where the fees are higher or lower than the fee schedule above.

Although the Advisory Service Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

An initial account construction fee of one-half of one percent (0.5%) with a minimum of \$2,500 of the portfolio balance will be charged at the beginning of the engagement to defer costs incurred by John Shao Portfolio Management, Inc. and as a fee for developing a comprehensive, personal asset management plan for client.

John Shao Portfolio Management, Inc., in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future

earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, etc.).

Asset Management

Assets are invested primarily in equities, fixed-income securities, no-load mutual funds and exchange-traded funds, usually through discount brokers. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. John Shao Portfolio Management, Inc. does not receive any compensation, in any form, from fund companies or discount brokerages.

Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not available through John Shao Portfolio Management, Inc..

Termination of Agreement

A Client may terminate Investment Management Services Agreement at any time by notifying John Shao Portfolio Management, Inc. in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination.

John Shao Portfolio Management, Inc. may terminate any of the aforementioned agreements at any time by notifying the client in writing.

Fees and Compensation

Description

John Shao Portfolio Management, Inc. bases its fees on a percentage of assets under management.

Fees are not negotiable.

Fee Billing

Investment management fees are billed quarterly, in arrears, meaning that we invoice you *after* the three-month billing period has ended. Payment in full is expected upon invoice presentation. Fees may be deducted from a designated client account to facilitate billing. The client must consent in

advance to direct debiting of their investment account. Clients may also choose to pay by check.

Other Fees

Custodians may charge transaction fees on purchases or sales of securities. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security. You may want to read the section of the brochure that discuss brokerage now about transaction costs brokerages may charge you.

Expense Ratios

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to John Shao Portfolio Management, Inc..

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

Past Due Accounts and Termination of Agreement

John Shao Portfolio Management, Inc. reserves the right to stop work on any account that is more than 30 days overdue.

Performance-Based Fees

Sharing of Capital Gains

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

John Shao Portfolio Management, Inc. does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

Types of Clients

Description

John Shao Portfolio Management, Inc. generally provides investment advice to individuals, small pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or business entities.

Client relationships vary in scope and length of service.

Account Minimums

The minimum account size for new client is \$1,000,000 of assets under management, which equates to an annual fee of \$18,600.

When an account falls below \$500,000 in value, the minimum annual fee of \$10,000 charged.

John Shao Portfolio Management, Inc. has the discretion to waive the account minimum. Accounts of less than \$1,000,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$1,000,000 within a reasonable time. Other exceptions will apply relatives of existing clients.

Clients receiving ongoing asset management services will be assessed a \$10,000 minimum annual fee. Clients with assets below the minimum account size may pay a higher percentage rate on their annual fees than the fees paid by clients with greater assets under management.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Security analysis method is primarily fundamental analysis. John Shao has developed a proprietary T-Ratio methodology to assist in estimating stock values.

The main sources of information include financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, company press releases, and multiple data services and newsletters.

Other sources of information that John Shao Portfolio Management, Inc. may use include Morningstar mutual fund information, Valueline information, Charles Schwab & Company's service, and the World Wide Web.

Investment Strategies

The primary investment strategy used on client accounts is strategic asset allocation utilizing a core and satellite approach. This means that we use passively-managed index and exchange-traded funds as the core investments, and then add actively-managed funds where there are greater opportunities to make a difference. We use individual equities and fixed-income securities as core or satellite holdings. Portfolios are globally diversified to control the risk associated with traditional markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time.

Other strategies may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of

financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Disciplinary Information

Legal and Disciplinary

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

Other Financial Industry Activities and Affiliations

None

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

The employees of John Shao Portfolio Management, Inc. have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions

John Shao Portfolio Management, Inc. and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the John Shao Portfolio Management, Inc. *Compliance Manual*.

Personal Trading

The Chief Compliance Officer of John Shao Portfolio Management, Inc. is John Shao. He reviews all employee trades each quarter. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets. John Shao's personal account is treated as one of clients' accounts so no preferential treatment is granted to John Shao's personal account.

Brokerage Practices

Selecting Brokerage Firms

John Shao Portfolio Management, Inc. does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. John Shao Portfolio Management, Inc.

recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

John Shao Portfolio Management, Inc. recommends discount brokerage firms (qualified custodians), such as Charles Schwab and Company. John Shao Portfolio Management, Inc. does not receive fees or commissions from any of these arrangements.

Best Execution

John Shao Portfolio Management, Inc. reviews the execution of trades at each custodian each quarter. The review is documented in the John Shao Portfolio Management, Inc. *Compliance Manual*. Trading fees charged by the custodians is also reviewed on a quarterly basis. John Shao Portfolio Management, Inc. does not receive any portion of the trading fees.

Soft Dollars

John Shao Portfolio Management, Inc. does not receive a software maintenance credit from Charles Schwab & Company.

Review of Accounts

Periodic Reviews

Account reviews are performed on daily, monthly, or quarterly by advisor John Shao, Ph.D., CFA, depending on account size and compositions. Account reviews are performed more frequently when market conditions dictate. Periodic reviews may or may not result in buying or selling securities for accounts reviewed.

Review Triggers

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

Regular Reports

Clients receive periodic communications on at least an annual basis. Clients receive written quarterly updates. The written updates may include portfolio statement, portfolio performance, expenses and income reports, and realized capital gains/loss reports.

Client Referrals and Other Compensation

Incoming Referrals

John Shao Portfolio Management, Inc. has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees

and other similar sources. The firm does not compensate referring parties for these referrals.

Referrals Out

John Shao Portfolio Management, Inc. does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Custody

SEC “Custody”

John Shao Portfolio Management, Inc. does not have custody of client accounts.

Account Statements

All assets are held at qualified custodians, which mean the custodians provide account statements directly to clients at their address of record at least monthly. Clients may elect to access their account information including monthly statements through the website of the custodians.

Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by John Shao Portfolio Management, Inc.

Investment Discretion

Discretionary Authority for Trading

John Shao Portfolio Management, Inc. accepts discretionary authority to manage securities accounts on behalf of clients. John Shao Portfolio Management, Inc. has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, John Shao Portfolio Management, Inc. consults with the client prior to each trade to obtain concurrence if a blanket trading authorization has not been given.

The client approves the custodian to be used and the commission rates paid to the custodian. John Shao Portfolio Management, Inc. does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment strategy that you have approved.

Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades on your behave.

Voting Client Securities

Proxy Votes

John Shao Portfolio Management, Inc. does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, John Shao Portfolio Management, Inc. will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

Financial Information

Financial Condition

John Shao Portfolio Management, Inc. does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because John Shao Portfolio Management, Inc. does not serve as a custodian for client funds or securities, and does not require prepayment of fees.

Principle Executive Officers

John Shao Portfolio Management, Inc. is 100% owned by John Shao. He is also the President and Chief Compliance Officer.

For his educational background and business experience, please consult the section of Brochure Supplement (Part 2B of Form ADV) on page 12.

Information Security Program

Information Security

John Shao Portfolio Management, Inc. maintains an information security program to reduce the risk that your personal and confidential information may be breached.

Electronic files are backed up daily and archived offsite.

Privacy Notice

John Shao Portfolio Management, Inc. is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

Brochure Supplement (Part 2B of Form ADV)

Education and Business Standards

John Shao Portfolio Management, Inc. requires that advisors in its employment have a bachelor's degree and further coursework demonstrating knowledge of investment planning and management. Examples of acceptable coursework include: an MBA, a CFP®, a CFA, a ChFC, JD, CTFA, EA or CPA. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

Chartered Financial Analyst (CFA): Chartered Financial Analysts are licensed by the CFA Institute to use the CFA mark. CFA certification requirements:

- Hold a bachelor's degree from an accredited institution or have equivalent education or work experience.
- Successful completion of all three exam levels of the CFA Program.
- Have 48 months of acceptable professional work experience in the investment decision-making process.
- Fulfill society requirements, which vary by society. Unless you are upgrading from affiliate membership, all societies require two sponsor statements as part of each application; these are submitted online by your sponsors.
- Agree to adhere to and sign the Member's Agreement, a Professional Conduct Statement, and any additional documentation requested by CFA Institute.

EMPLOYEE JOHN SHAO, CERTIFICATIONS

Educational Background:

- Date of birth: 1963
- Ph.D. in Finance, Virginia Polytechnic Institute and State University, 1991
- Master of Science in Statistics, Virginia Polytechnic Institute and State University, 1989
- Master of Arts in International Business, University of Texas at Dallas, 1987
- Bachelor of Electrical Engineering, Tsinghua University, Beijing, China, 1984

- Chartered Financial Analyst holder since 2002

Business Experience:

- Founder, President of John Shao Portfolio Management, Inc. since 1998
- Financial Advisor and Investment Management since 1992
- Tenured Professor of Finance in Oklahoma City University from 1991 to 2005

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision: John Shao is the owner and president of John Shao Portfolio Management, Inc. He is also the chief compliance officer and chief investment strategist.