

Gaineswood Investment Management, Inc.

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This brochure provides information about the qualification and business practices of Gaineswood Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at (410) 764-3500, or by email at england@gaineswood.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 Gaineswood Investment Management, Inc. is available on the SEC's website at www.adviserinfo.sec.gov.

8/19/2011

Material Changes

Annual Update

Gaineswood Investment Management, Inc. ("Gaineswood") is providing this information as part of our annual updating amendment which contains material changes from our last annual update. This section discusses only material changes since the last annual update which most recently occurred on March 16, 2010.

Material Changes since the Last Update

The Securities and Exchange Commission adopted amendments to Part 2 of Form ADV effective October 2010. The newly revised Part 2 consists of Part 2A (the "Brochure") and Part 2B (the "Brochure Supplement"). Each update of the Brochure must now include a summary of all material changes since the last annual update.

This Brochure, dated March 31, 2011, is materially different in structure and contains certain new information that our previous brochure did not require. Following is a summary of additional material changes:

- Increase in minimum account size from \$100,000 to \$250,000.
- New Chief Compliance Officer, Michelle England.
- GARP Research & Securities Co., an affiliation with common control, has shut down the broker-dealer and is now just a state registered investment adviser.

Full Brochure Availability

The Firm Brochure for Gaineswood Investment Management, Inc. ("Gaineswood") is available by contacting Michelle England, (410) 764-3500 or by email england@gaineswood.com.

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Advisory Business

Firm Description

Gaineswood Investment Management, Inc. (“Gaineswood”), founded in 1995, is a small and mid cap growth stock money manager. Gaineswood Investment Management Inc. is a Delaware corporation. Gaineswood is registered with the SEC.

Principal Owners

The sole owner, William W. Baker, is President and Chief Investment Officer.

Types of Advisory Services

Gaineswood provides investment advisory services to clients through separately managed accounts. Part of the advisory services is providing advice regarding asset allocation and the selection of investments.

Gaineswood’s investment philosophy is known as “Persistent Growth Investing.” This is generally done by pursuing a strategy of buying reasonably priced, high quality, rapidly growing companies for a three-year or longer holding period.

Gaineswood offers its clients four ways to invest. Each strategy makes use of small and mid cap growth equities, one is specialized, and another incorporates a macro overlay. Each is a composite of accounts with its own mandate.

- **Standard:** The Standard composite invests in 30-60 small and mid cap growth stocks with a North American focus. It is Gaineswood’s longest-running product, with an inception dating back to the beginning of 1996.
- **Selected:** The Selected composite invests the same way that Standard would, except it is highly concentrated with 10-15 holdings (usually 15). It was originated at the behest of a research affiliate client in 2006.
- **Flexible:** The Flexible composite is available as a separate account, but is best known by its flagship product, the Marlmont Fund, LP. Marlmont is a long-biased hedge fund Gaineswood started in 2000, which makes use of the same investment philosophy for its long equity side as is utilized in Gaineswood’s Standard and Selected products. However, a macroeconomic overlay is maintained that can skew the asset allocation to cash, short equities, gold equities, and occasionally other investments.
- **Gold:** The Gold composite was started in late 2009 at the behest of the founder of a money manager research client that wanted specific exposure to Gaineswood’s precious metals equity choices that were being used mainly in the gold allocation of the Flexible composite. It contains 30 or more precious metals equities generally in the small to medium cap range. The selections are often traded in Canada, with some in Australia or London, and the projects the companies operate are located globally.

The firm also provides model portfolios to investment advisors and brokers who utilize Eqis Capital, a separately managed account platform, Smartleaf, Inc., an overlay technology provider, and Wealthfront Inc., a separately managed account platform. The model portfolios are based on the Standard strategy. Gaineswood does not have investment discretion over the clients' assets assigned to the models and does not place trades or vote proxies on their behalf.

Tailored Relationships

Gaineswood offers its services to all clients. However specific client portfolios are dependent on the clients' investment objectives, restrictions, risk tolerance and time horizon.

Clients may impose restrictions in investing in certain securities or types of securities, in accordance with their values and beliefs. However if any of the restrictions prevent Gaineswood from properly servicing the account, Gaineswood reserves the right to end the relationship.

Client Assets

The assets under management (AUM) for discretionary accounts is \$41,064,878 as of 2/28/2011. The AUM for non-discretionary accounts is \$19,459,595 as of 7/31/2011.

Fees and Compensation

Description

Standard & Selected:

Assets managed pursuant to the Standard and Selected portfolios are charged 1% on the first \$10 million, 0.75% on the next \$10 million, and 0.50% for accounts valued over \$20 million.

Gold:

Assets managed pursuant to the Gold portfolio are charged a management fee of 1.5%.

Flexible:

The management fee for assets managed pursuant to the Flexible is 1%.

Model Portfolios:

Eqis Capital Fee Schedule:

<u>Account Size</u>	<u>Annual Fee</u>
First \$1.0 million	0.15%
Next \$1.5 million	0.11%
Next \$2.5 million	0.09%
Next \$5.0 million	0.07%
Amounts over \$10 million	0.04%

Fees earned by Gaineswood are based on each and every individual account.

Smartleaf, Inc. Fee Schedule:

<u>Asset Level</u>	<u>Annual Fee</u>
Up to \$25 million	0.45%
Over \$25 million	0.42%
Over \$100 million	0.40%

Fees earned by Gaineswood are based on the value of the assets assigned to the models.

Wealthfront Fee Schedule:

<u>Annual Fee</u>
0.75%

Fees earned by Gaineswood are based upon the fee Wealthfront earns from their customers whose accounts mirror the model.

Fee Billing

Management fees for all strategies are payable quarterly in arrears based on the market value of the account assets as determined on the last day of the preceding quarter. Fees for the initial quarter are prorated from the date of account inception. Clients may pay the fees by check or they may be deducted from their account. Gaineswood may, in its sole discretion, waive or reduce either or both the management fee and performance fee charged to clients.

The investment advisory contract may be terminated by the client or Gaineswood with 30 days written notice. Upon termination, fees will be prorated and payable in arrears at the termination date.

Other Fees

No other fees are charged by the firm at this time. Clients are responsible all third party fees such as custodial fees, brokerage transactions fees and mutual fund fees. Those fees are separate and distinct from fees charged by Gaineswood. See more information in the section entitled Brokerage Practices for more information on the selection of broker dealers.

Performance-Based Fees & Side-by-Side Management

Sharing of Capital Gains or Capital Appreciation

Gaineswood manages a private limited partnership, Marlmont Fund, LP, which is a hedge fund. In consideration for services provided pursuant to the investment management agreement, Gaineswood shall receive a monthly management fee equal to 0.083% (approximately 1.0% annually) of each investor's share of the hedge fund's Net Asset Value (as defined below). The Management Fee shall be calculated and payable to Gaineswood monthly in arrears within 15 days after the end of such month. A *pro rata* Management Fee will be charged to investors on any amounts accepted by an affiliate of Gaineswood as investments in the midst of any month. Gaineswood, in its sole discretion, may waive or reduce the Management Fee with respect to

one or more investors for any period of time, or agree to apply a different Management Fee for that investor (all such arrangements in the form of a rebate or otherwise).

As consideration for services pursuant to the hedge fund agreement, an affiliate of Gaineswood shall receive an annual performance allocation ("Performance Allocation") at the close of each fiscal year equal to 20% of the portion of the hedge fund's annual net income (including realized and unrealized gains and net of the Management Fee) attributable to each investor. The Performance Allocation shall be subject to a Loss Carryforward (as defined below) provision (sometimes referred to as a "high water mark").

Performance-based fees are not allowed unless they conform to the provisions of Rule 205-3 of the Investment Advisers Act of 1940.

Upon any withdrawal by an investor, whether voluntary or involuntary, from the Hedge Fund, an affiliate of Gaineswood shall receive the Performance Allocation with respect to the amounts withdrawn. Upon dissolution of the Hedge Fund, an affiliate of Gaineswood, shall receive the Performance Allocation. The Performance Allocation is applied after allocations of income and profits, or losses, to Gaineswood and/or its affiliates have been made, including the effect of Management Fees.

The hedge fund, an affiliate of Gaineswood, in its sole discretion, may waive or reduce the Performance Allocation with respect to any investor for any period of time, or agree to modify the Performance Allocation for that investor. The Hedge Fund, an affiliate of Gaineswood may, in its discretion, reallocate a portion of the Performance Allocation to certain investors.

The Performance Allocation is subject to what is commonly known as a "high water mark" procedure. That is, if an investor's capital account has a net loss in any fiscal year, this loss will be recorded and carried forward as to such investor to future fiscal years (such amount is referred to as the "Loss Carryforward"). An affiliate of Gaineswood will not receive the Performance Allocation from such investor in any future fiscal year until the Loss Carryforward amount for such investor has been recovered (i.e., when the Loss Carryforward amount has been exceeded by the cumulative profits allocable to such Limited Partner for the fiscal years following the Loss Carryforward). Once the Loss Carryforward has been recovered, the Performance Allocation shall be based on the excess profits (over the Loss Carryforward amount) as to such investor, rather than on all profits. The "high water mark" procedure prevents an affiliate of Gaineswood from receiving the Performance Allocation as to profits that simply restore previous losses and is intended to ensure that the Performance Allocation is based on the long-term performance of an investment in the Hedge fund.

When an investor withdraws capital, any Loss Carryforward will be adjusted downward in proportion to the withdrawal. The hedge fund, an affiliate of Gaineswood may agree with any investor to apply a different Loss Carryforward provision for such investor.

See the section entitled Other Financial Industry Activities and Affiliations for the conflicts and how they are mitigated.

Types of clients

Description

Our clients are comprised of high net worth individuals, institutional clients and a hedge fund (Marlmont Fund, LP).

Account Minimums

The minimum account size for Gaineswood's investment strategies and the Marlmont Fund is \$250,000.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Gaineswood's method includes charting analysis, fundamental analysis, and technical analysis.

Charting analysis involves the use of patterns in performance charts. Gaineswood uses this technique to search for patterns used to help predict favorable conditions for buying and/or selling a security.

Fundamental analysis involves the analysis of financial statements, the general financial health of companies, and/or the analysis of management or competitive advantages.

Technical analysis involves the analysis of past market data; primarily price and volume.

Gaineswood's investment process is research driven. Gaineswood's analysts develop a "quality thumbnail" on stocks, and then usually follow up with intensive phone interviews, company visits, or other methods of discovering information. Gaineswood maintains a library on hundreds of companies with analyst notes that can date back to its inception in 1995.

The process of deciding whether an idea is bought, held, or sold usually incorporates the firm's growth and value matrix, which is designed to broadly quantify the potential of ideas through their life cycle in the portfolios.

Investment Strategies

Gaineswood uses long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold with 30 days), short sales, margin transactions, and option writing, including covered options uncovered options or spreading strategies.

The investment strategies utilized by Gaineswood are designed to capture market rates of both return and risk. Frequent trading, when done, can affect investment performance, particularly

through increased brokerage and other transaction costs and taxes. Refer to the section entitled Type of Advisory Services for a full description of our core investment strategies.

Risk of Loss

Gaineswood generally seeks investment strategies that do not involve significant or unusual risk beyond that of the general domestic and/or international equity markets.

Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.

Risks of Stock Investing

Stocks generally fluctuate in value and may decline significantly over short time periods. The value of a stock in which a portfolio or fund invests may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry.

Foreign Investing Risk

This the risk of that the fund's investments in foreign securities may be adversely affected by political and economic conditions overseas, reduced liquidity, or decreases in foreign currency values relative to the U.S. dollar.

Disciplinary Information

Legal and Disciplinary

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

Other Financial Industry Activities and Affiliations

Gaineswood is not involved in any other financial industry activities.

Material Relationships or Arrangements with Financial Industry

Gaineswood is affiliated by common control with GARP Research & Securities Co., a state registered investment adviser that provides equity research to institutional investors. Gaineswood maintains restricted and watch lists of securities to prevent employees of Gaineswood & GARP Research & Securities Co. from trading ahead of research in personal and client accounts. See section regarding Personal Trading Policies for further information.

William W. Baker is the principal of Gaineswood as well as the sole principal of Garp Capital, LLC, which is the general partner of the Hedge Fund. Gaineswood is the investment manager of the Hedge Fund.

William W. Baker and Garp Capital, LLC have capital accounts in the Hedge Fund, Marlmont Fund LP.

Gaineswood clients may maintain accounts with different custodians. To ensure fairness in execution of orders of the same security, Gaineswood maintains a monthly rotation schedule which rearranges priority of platform in an unbiased and mechanical method.

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

Code of Ethics

Gaineswood has adopted a Code of Ethics (COE) that governs all employees and other supervised persons of Gaineswood. The COE is based upon the principle that directors, officers and employees of Gaineswood have a fiduciary duty to place the interest of clients above their own. The COE addresses compliance with federal securities laws and personal trading and reporting. A copy of the COE will be provided upon request.

Recommend Securities with Material Financial Interest

Gaineswood has one hedge fund in which it is the investment advisor to the general partner. Gaineswood may recommend an investment in the hedge fund to its other clients. See the section entitled Other Financial Industry Activities and Affiliations for the conflicts and how they are mitigated.

Invest in Same Securities Recommended to Clients

From time to time, representatives of Gaineswood may buy or sell securities for themselves that they also recommend to clients. Gaineswood will always document any transactions that could be construed as conflicts of interest and will always transact client business before its own when similar securities are being bought or sold.

Personal Trading Policies

Gaineswood employees and/or household members are obligated to pre-clear all security transactions in their personal and household accounts.

Personal securities transactions are not permitted when an order for the same or related security is pending for the account of a Gaineswood Investment Management, Inc. client.

Brokerage Practices

Selecting Brokerage Firms

Gaineswood is responsible for the placement of the portfolio transactions of clients and the negotiation of any commissions paid on such transactions. Portfolio securities normally are purchased through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio instruments through brokers involve a commission to the broker. Purchases of portfolio securities from dealers serving as market makers include the spread between the bid and the asked price. Gaineswood will not commit to provide any level of brokerage business to any broker. Gaineswood may utilize the services of one or more introducing brokers who will execute clients' brokerage transactions through the broker and custodian who will clear the clients' transactions.

In selecting broker-dealers to execute trades for client accounts, the Firm will evaluate the overall value and quality of the services provided, including, but not limited to rates of commission, markups or spreads, prices, speed, and reliability, confidentiality and other relevant factors. The Firm will seek to use brokers that, in its professional judgment, offer the best overall combination of quality, breadth of services, and price.

Research and Soft Dollars

Gaineswood does not have any soft dollar arrangements.

Directed Brokerage

If a client directs Gaineswood to use a particular broker, the client normally will be responsible for negotiating commission rates with that broker. In such circumstances, the client may pay higher commissions than would have been paid had Gaineswood had full discretion to select the broker of their choosing. Gaineswood has no control over the commission rates these clients pay to their chosen broker/dealer nor does it have any control over the other factors that relate to best execution. Clients retain responsibility for obtaining best execution in their directed brokerage accounts.

Order Aggregation

Gaineswood may aggregate purchase and sale orders of investments held by the clients with similar orders being made simultaneously for other accounts or entities if, in Gaineswood's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to the clients based on an evaluation that the clients will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of investments for the clients will be affected simultaneously with the purchase or sale of like investments for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume of investments purchased or sold. In such event, the average price of all investments purchased or sold in such transactions may be determined, at Gaineswood's sole discretion, and the clients may be charged or credited, as the case may be, with the average transaction price on the date of the execution, which may vary depending on the timing of the execution.

Review of Accounts

Periodic Reviews

All accounts managed by Gaineswood Investment Management, Inc. are reviewed, at least, on a quarterly basis by a designated principal to assure conformity with client objectives and guidelines.

Review Triggers

All accounts are reviewed in light of emerging trends and developments as well as market volatility.

Regular Reports

Monthly and/or quarterly statements will be provided to all accounts managed by Gaineswood Investment Management, Inc., evidencing the account's performance. In addition, an annual report prepared by an independent accounting firm will be provided to the investors of Marlmont Fund, LP.

Client Referrals and Other Compensation

Third Party Solicitors

Employee and non-employee (independent) solicitors, who are responsible for bringing a client to Gaineswood, may receive compensation from Gaineswood for the client referral. These arrangements will not result in higher costs to the client. Such arrangements will comply with the requirements set forth under the Investment Advisers Act of 1940 and/or the applicable state laws, including a written agreement between Gaineswood and the solicitor. Non-employee solicitors must provide a copy of Gaineswood's ADV Part 2A and a separate written disclosure statement regarding the relationship between the solicitor and Gaineswood to the prospective client at the time of the solicitation or referral. The client will be requested to acknowledge this arrangement prior to acceptance of the client's account for advisory services. Prior to compensating any person for client referrals, Gaineswood will ensure that the person is properly registered or exempt from the relevant registration requirements.

Custody

Account Statements

Statements are produced by the qualified custodian who sends them directly to the client, at least quarterly. Clients are urged to compare these statements to those provided by Gaineswood.

Investment Discretion

Discretionary Authority for Trading

Each client grants the Investment Manager discretionary trading authority to manage the Account and to perform its investment advisory services. The Investment Manager shall supervise and direct, in its sole discretion, the investments of the Account without further consultation with client subject to any written instructions provided by client.

Prior to Gaineswood exercising its discretionary authority in client accounts, the investment advisory agreement must be executed.

Voting client Securities

Proxy Voting

Gaineswood's general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "proxies") relating to investments in a manner that serves the best interests of the client or fund managed by Gaineswood, as determined by Gaineswood's senior management in its discretion, taking into account the following factors and other such factors that may be proper under the circumstances:

- Whether the proposal is a routine proposal or a non-routine proposal;
- The impact the proposal will have on the value of the security, or on the value of the returns to the client's account or a fund;
- The costs associated with the proxy;
- The impact the proposal may have on the liquidity of the investment, or the redemption or withdrawal rights; and the impact the proposal may have on shareholder rights.
- In case of a potential conflict of interest a third party will be used to vote the proxies.

Proxies for routine proposals (such as the election of directors, selection of independent public accountants, stock splits and increases in authorized capital stock) generally should be voted in favor of management's recommendations. Gaineswood, using its discretion, may choose not to vote proxies on routine proposals if it finds that the benefits of voting are outweighed by the costs or expense of voting. In order to ensure that Gaineswood votes proxies in the best interest of its Clients, Gaineswood has hired the services of an independent proxy voting service. Gaineswood monitors the activities of this voting service and retains records of votes cast. Clients can obtain information on how the proxies were voted by requesting such information from the Chief Compliance Officer.

A copy of Gaineswood's Proxy Voting Policies and Procedures is available upon request.

Financial Information

Prepayment of Fees

Gaineswood does not require the prepayment of fees of more than \$1,200 per client, six months or more in advance.

Financial Condition

Gaineswood does not have any financial conditions that are reasonably likely to impair its ability to meet contractual commitments to clients.

Bankruptcy

Gaineswood has not been subject to a bankruptcy petition at anytime in its operating history.