

## Chitwood Advisory Group, Inc.

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This Brochure provides information about the qualifications and business practices of Chitwood Advisory Group, Inc. (“Chitwood”). If you have any questions about the contents of this Brochure, please contact us at the number above. 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.

Chitwood is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. This Brochure is intended, in part, to provide information which can be used to make a determination to hire or retain an Adviser.

Additional information about Chitwood also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Our Brochure may be requested by contacting us at the numbers above.

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#### **Item 4 – Advisory Business**

Chitwood Advisory Group, Inc. (“Chitwood”) was established in 1988 and applied for registration as a Registered Investment Adviser in 2011. Patrick R. Chitwood is its President and 100% owner.

Portfolio management is based on the individual objectives of each specific client portfolio and may or may not represent the overall objectives of the clients’ total investment assets. The Advisor recommends and employs various investment strategies. Accounts are designed to provide either discretionary or non-discretionary management by an Advisor of the firm. The Advisor assists each client in formulating investment objectives and manages the account within established guidelines regarding, among other matters, diversification and designation of securities that may be purchased.

As part of this service, each client portfolio is tailored to their particular investment needs and circumstances. This includes investment management in accounts (“Separate Accounts”) based on the client’s investment needs and a risk strategy (from conservative to aggressive), which is selected in conjunction with the client and incorporated into the account agreement. The available risk strategies correlate to asset allocation models developed by the Advisor based on target allocations for various asset classes and subclasses. Chitwood selects investments in the client’s account that are consistent with the selected risk strategy and that pass a series of quantitative and qualitative filters. Separate Accounts are periodically rebalanced toward their asset allocation targets.

Under the terms of the agreement with the Client, the Adviser may:

- (1) Determine the investor’s risk profile, investment objectives and time horizon.
- (2) Set a relevant asset allocation policy for the investor.
- (3) Diversify among asset classes and styles.
- (4) Rebalance the investor portfolio as deemed necessary by Adviser.
- (5) Report and review investment results from time to time. Reviews may include client’s performance in light of identified needs and objectives. They will be conducted on a continuous or periodic basis, as agreed upon by the client and in the Agreement with the client.
- (6) Recommend changes in the Client’s investments, investment strategy or objectives. Recommendations may be given in connection with the review of the Client’s current investments or the Client’s financial needs or objectives as identified by the Client.
- (7) Report the current status of client holdings on a periodic basis, as agreed upon in the Adviser’s Agreement with the Client.

#### **Approved Custodians:**

Currently, accounts are maintained at one of the qualified custodians that Chitwood maintains an agreement with. The following are the approved platforms: Charles Schwab & Co. (“Schwab”); TD Ameritrade (“TD”); and FOLIOfn. For Schwab, TD accounts, and FOLIOfn, ticket charges for trade executions are billed at cost to the client. Chitwood and/or its Advisors do not share in any of these ticket charges or account fees and will be solely compensated per the management fee schedule listed in Item 5.

Presently FOLIOfn will charge on a tiered or blended wrapped fee basis custodian fees of 0.20% for account balances of 0 to \$999,999.99 and 0.10% for account balances of \$1,000,000.00 or greater. This covers all transaction, ticket charges except where indicated here to follow. The annual account fee of \$150.00 is also waived when the client agrees to receive all account statements and transaction notices by email or other electronic means. IRA account will incur an annual fee of \$25.

For Non-Portfolio market or limit orders with FOLIOfn there will be a ticket charge of \$3.95 per trade which is approximately 80% less than Chitwood's other custodial arrangements. However, FOLIOfn is utilized because of its Portfolio trading platform abilities where no ticket charges are incurred, thus it is expected that ticket charges and transaction fees will be greatly reduced if not eliminated in most cases.

There will be no additional third party management fees, with the exception of management fees charged by the following type of investment vehicles. These investment vehicles and the general range of said fees which may vary are as follows: Exchange Traded Funds (ETFs) 0.10% to 0.60%, Exchange Traded Fund Hedge Multi Strategy (0.75% to 1.10%) No Load Mutual Funds (0.10% to 1.40%).

### **Chitwood Financial Planning**

Chitwood also may provide advice in the form of a Financial Plan. Clients may receive a written financial plan, providing the client with a detailed financial plan designed to achieve their stated financial goals and objectives.

Chitwood works regularly with other professionals such as attorneys, Certified Public Accountants, trust officers, Mortgage Analysts etc., to offer financial and estate planning advice. Chitwood specializes in the areas of investment, financial, estate, risk management, retirement, and business continuation planning. Chitwood offers nonbiased planning and does not represent one particular Company.

The financial management process begins with an in-depth evaluation of your current financial goals and objectives. Once we have established your overall objectives, we'll focus on your specific goals. Services may include the following:

- 1) Retirement Income Planning
- 2) Estate Analysis
- 3) Investment Planning
- 4) Fee Based Asset Management
- 5) Estate Conservation
- 6) Long Term Care Planning
- 7) Life Insurance / Survivorship Needs Analysis
- 8) Stocks, Bonds Corp. / Gov. / Municipal
- 9) Charitable Giving
- 10) Wealth Succession Planning

### **Item 5 – Fees and Compensation**

Chitwood shall charge the following negotiable fees for managing Client's accounts:

<b>Account Value</b>	<b>Annual Fee</b>
Up to \$1,000,000	1.15%
Above \$1,000,000	0.60%

\*\* All advisory management agreements are to specify the fees charged to the account.

For Separate Accounts, Chitwood does not normally consider its management fee to be negotiable, although Chitwood reserves the right in its discretion, based on factors that are deemed to be relevant, to agree to a management fee for any particular client that varies from the fee set forth in the table

above and which may be lower or higher than fees charged to another client with a similar sized account. Relevant factors that may lead to a variation in fees include, for example, the size and scope of the client's overall relationship and the fees that the client's account was charged at another firm prior to transferring to Chitwood.

Quarterly fees are based on the value of the account is calculated as the market value of all long and short securities positions in the account on the last business day of the calendar quarter and will not be reduced by any margin or other indebtedness of the client with respect to such securities or other investments. Although the fees listed above are "default" fees, they may, in some circumstances, be negotiable. If the firm is assessed a transactions fee, such fee is to be passed on to the client at cost.

All Advisory Contracts will specify how fees are to be billed. Generally, fees are either paid in advance or in arrears of service.

**If paid in advance**, the initial fee payment is due in full on the date the client's account is accepted and opened by the firm (the "Opening Date") and will be based on the asset value of the account on that date.

**If paid in arrears**, the fee payment is due following the 1st calendar quarter. The period for which such payment will be made will run from the opening date through the last day of the full calendar quarter and will be prorated. Thereafter, the quarterly fee is based on the account asset value on the last day of the respective calendar quarter.

Fees will not be adjusted or pro-rated for additions to or withdrawals from the account during the calendar quarter. Client will maintain or deposit sufficient funds in the account to cover payment of all fees authorized by the contract, and the client authorizes the firm, clearing firm, and/or custodian to debit the account balances or redeem money market fund shares in the amount equal to the fee that is due. If there are not funds to cover the fees, then the firm may liquidate assets to cover fees.

Other fees may include costs associated with any dealer markups and odd lot differentials, transfer taxes, exchange fees mandated by the Securities Exchange Act of 1934 and other charges imposed by law with regard to any account transactions; offering discounts; IRA fees; redemption fees, exchange fees or similar fees imposed in connection with any mutual fund transaction. Client acknowledges that some or all of the mutual funds in which client invests may, as allowed under the Investment Company Act of 1940, pay fees to broker-dealers with respect to the distribution of the mutual funds' shares. The firm's associated persons, as Registered Representatives, may receive such a fee from the mutual funds. Such fees are described in mutual fund prospectuses.

Although Chitwood believes its fees are reasonable in light of the services provided, clients should be aware that such fees may be more or less than the fees and commissions associated with investment advisory and brokerage services purchased separately. The comparison is dependent upon a number of factors, including the frequency of brokerage activity in the client's account, the size of the account under management, and any negotiated fee arrangements with respect to the account. An investor should consider these factors prior to opening an Advisory Account with Chitwood.

**Financial Planning Fee Details:** Chitwood may also charge an hourly rate for any agreed upon financial planning work. This rate may vary depending on the requested task; however client will be provided an estimate in advance.

Item 12 further describes the factors that Chitwood considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

Chitwood's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Chitwood's fee, and Chitwood shall not receive any portion of these commissions, fees, and costs. Please see Item 4 for additional information regarding fees charged by custodians.

Transaction fees charged may be higher than those otherwise available if the services were provided separately for a discrete fee or if an Investment Advisor were to select brokerage and negotiate commissions in the absence of the extra consulting service provided. Clients should consider the value of the additional consulting services when making such comparisons. The combination of custodial, consulting, and brokerage services may not be available separately or may require multiple accounts, documentation, and fees. All fees described herein may be subject to negotiation depending on a range of factors including, but not limited to, account size and overall range of services requested.

#### **Account Termination**

The client and/or the firm may initiate termination of the contract at any time by sending written notice to the contra party and will be accepted the day that it is received by the contra party. Client and/or the firm may initiate termination of the contract at any time by sending written notice to the contra party and will be accepted the day that it is received by the contra party. A full refund will be provided without penalty if the client terminates the contract within 5 business days of signing with the firm. For the purposes of this provision, a contract is considered entered into when all parties to the contract have signed the contract, or in the case of an oral contract otherwise signified their acceptance, any other provisions of this contract notwithstanding.

Upon written receipt of notice to terminate its Client Agreement and unless specific transfer instructions are received, Chitwood and its agent will, in an orderly and efficient manner, proceed with liquidation of the client's account. There will not be a charge by us for such redemption; however, the client should be aware that certain mutual funds impose redemption fees as stated in each company's fund prospectus in certain circumstances. Clients must keep in mind that the decision to liquidate security issues or mutual funds may result in tax consequences that should be discussed with the client's tax advisor. Factors that may affect the orderly and efficient manner would be size and types of issues, liquidity of the markets, and market makers' abilities. Should the necessary securities' markets be unavailable and trading suspended, efforts to trade will be done as soon as possible following their reopening. Due to the administrative processing time needed to terminate client's investment advisory service and communicate the instructions to client's Investment Advisor, termination orders received

from clients are not market orders; it may take several business days under normal market conditions to process the client's request. During this time, the client's account is subject to market risk. Chitwood and its agent are not responsible for market fluctuations of the client's account from time of written notice until complete liquidation. All efforts will be made to process the termination in an efficient and timely manner.

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

Chitwood does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

#### **Item 7 – Types of Clients**

Chitwood provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, trusts, and corporations. The minimum account size is \$250,000, but may be negotiated in certain instances.

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

Our investment strategy begins with an understanding of a client's financial goals. Advisors use demographic and financial information provided by the client to assess the client's risk profile and investment objectives in determining an appropriate plan for the client's assets. Investment strategies ordinarily include long- or short-term purchases of stock portfolios, mutual funds and fixed income securities.

Investment recommendations are based on an analysis of the client's individual needs, and are drawn from research and analysis. Security analysis methods may include fundamental analysis, technical analysis, charting and cyclical analysis. Information for this analysis may be drawn from financial newspapers and magazines, research materials prepared by others, annual reports, corporate filings, prospectuses, company press releases and corporate ratings services.

It is important to note that investing in securities involves certain risks that are borne by the investor. For any risks associated with Investment Company products, please refer to the prospectuses for additional details about these risks. Our investment approach constantly keeps the risk of loss in mind. These risks include, but are not limited to:

- **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.

- **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.

#### **Item 9 – Disciplinary Information**

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Chitwood or the integrity of Chitwood's management. Chitwood has no information applicable to this Item.

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

The Advisors are registered with PROEQUITIES, a registered broker-dealer. Advisors may suggest clients execute transactions through PROEQUITIES. In this capacity, the Advisor may receive normal commission and/or other compensation. Client accounts may be converted from commission accounts to fee accounts once they exceed \$2500,000 in value or per the Adviser's consent.

Patrick R. Chitwood is a Certified Public Accountant ("CPA"). Mr. Chitwood may provide personal tax services through Chitwood Advisory Group, Inc. to Advisory and non- Advisory clients for a separate fee.

Certain individuals are separately licensed as insurance agents/brokers for various independent insurance companies. In their separate capacities as Registered Representatives or as independent Insurance Agents, these individuals will be able to implement securities or insurance transactions for advisory clients for separate and typical compensation. These individuals may spend as much as 10% of their time with these aforementioned non-advisory activities. If a trade error were to occur, it may result in profit or loss to the firm. The firm has controls in place to limit such trade errors. Individual Advisers will not participate in any profits resulting from such errors.

Item 12 includes additional details regarding brokerage practices and related disclosures.

#### **Item 11 – Code of Ethics**

Chitwood has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to



the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Chitwood must acknowledge the terms of the Code of Ethics annually, or as amended.

Advisors of Chitwood may buy or sell securities that are recommended to clients. Chitwood's employees and persons associated with Chitwood are required to follow the Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Chitwood and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Chitwood's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Chitwood will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Chitwood's clients. In addition, the Code requires pre-approval of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Chitwood and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Chitwood's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Chitwood will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

Chitwood's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Pat Chitwood at our main number.

#### **Item 12 – Brokerage Practices**

For Chitwood client accounts maintained in its custody, Schwab and FOLIOfn generally do not charge separately for custody services but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab/FOLIOfn or that settle into Schwab/FOLIOfn accounts. Schwab and FOLIOfn also make available to Chitwood other products and services that benefit Chitwood but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or a substantial number of Chitwood accounts, including accounts not maintained at Schwab or FOLIOfn. Schwab and FOLIOfn products and services that assist Chitwood in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of Chitwood fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab and FOLIOfn also offer other services intended to help Chitwood manage and further develop its business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab and FOLIOfn may make available, arrange and/or pay third-party vendors for the types of services rendered to Chitwood. Schwab and FOLIOfn may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Chitwood. Schwab and FOLIOfn may also provide other benefits such as educational events or occasional business entertainment of Chitwood personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab or FOLIOfn, Chitwood may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab or FOLIOfn, which may create a potential conflict of interest.

Advisors may suggest PROEQUITIES for broker-dealer services to clients. Factors for such recommendation would be when transaction compensation is seen as a benefit to the client. For broker-dealer services, the Adviser or its associated persons may receive compensation for such transactions, where such compensation is separate and distinct from the Adviser's compensation related to its investment advisory services. Commissions paid to Chitwood for broker-dealer services may be higher or lower than those obtainable from other brokers in return for those products and services.

#### **Item 13 – Review of Accounts**

Account reviews are conducted by the Advisor. Account performance is reviewed not less than quarterly. Factors that are considered during such reviews include, but are not limited to the following: investment objectives, targeted allocation, current allocation, suitability, performance, monthly distributions, concentrated positions, diversification, and outside holdings. Examples of situations that may impact Client's account would be the following: performance that is not in line with the client's "downside risk tolerance," change in investment objective, the client makes a significant addition of capital or withdrawal of capital from the account, rebalancing of the portfolio if current allocation and targeted allocation are not consistent, concentrated position that could lead to volatility, etc.

The client agrees to inform the firm in writing of any material changes to the information included in the questionnaire or any other change in the client's financial circumstances that might affect the manner in which client's assets should be invested. Clients may contact the firm during normal business hours to consult with the firm concerning the management of the client's account(s). Item 15 contains information regarding the custody reports provided.

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

Chitwood does not compensate for client referrals.

#### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Chitwood urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

The client should receive the following reports from its Custodian of Record. These reports include:

- Trade confirmations reflecting all transactions in securities (except money market mutual fund transactions);
- Monthly and/or quarterly statements of client's account itemizing all transactions in cash, securities, and all deposits and withdrawals or principal and income during the preceding calendar month;
- Statements of securities in custody, listing securities held in the account, submitted at least quarterly.

#### **Item 16 – Investment Discretion**

Chitwood usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. Clients must authorize such discretion in the advisory agreement. When selecting securities and determining amounts, Chitwood observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to Chitwood in writing.

#### **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, Chitwood does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in their portfolios. Clients will receive their proxies or other solicitations directly from the custodian or transfer agent. Clients should contact their Advisor if they have any questions or to obtain this information.

#### **Item 18 – Financial Information**

Registered Investment Advisers are required in this Item to provide you with certain financial information or disclosures about Chitwood's financial condition. Chitwood has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

#### **Item 19 – Requirements for State-Registered Advisers**

Pat Chitwood serves as President and CCO. The following describes his formal education and business background.

##### **Patrick R. Chitwood**

##### **Education Background**

University of Alabama - 1969-BA, Psychology

University of Alabama - 1970-MA, Psychology

University of Alabama - 1972-Ph.D., Psychology

1989 Chartered Financial Consultant

University of Alabama, Birmingham - 1994-Accounting, CPA/PFS

**Business Background**

<b>Firm</b>	<b>Position</b>	<b>Date</b>
Chitwood Advisory Group, Inc.	President/Advisor	1988-Present
PROEQUITIES	Registered Representative	2008-Present
Chitwood-Lindberg Wealth Mgmt	Partner/Advisor	2009-2011
Triad Advisors, Inc.	Registered Representative	2003-2008

Pat Chitwood also serves as a CPA at Chitwood Advisory Group. He spends approximately 10% of his time in this capacity.

Pat Chitwood is not compensated with performance based fees. There are no disciplinary proceedings against him that would require disclosure. Pat Chitwood has no other relationship or arrangement with any issuer of securities.

**Item 20 – Privacy Policy**

We collect nonpublic personal information about you from the following sources: Information we receive on applications, questionnaires, web site, or other forms and information about your transactions with our affiliates, others, or us. We do not disclose any non-public information about our current or former customers to anyone, except as permitted by law or in order to provide the current services. Our employees have limited access to your personal information based on their responsibilities to provide products or services to you. Be assured that we maintain physical, electronic and procedural safeguards in compliance with federal standards to protect your information.