

**FIRM BROCHURE**  
(Part 2A of Form ADV)

**May 18, 2011**

**Private Equity Investments, Inc.**

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**Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Private Equity Investments, Inc. If you have any questions about the contents of this Brochure, please contact us at (800) 455-6050. 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.**

**Private Equity Investments, Inc. is registered as an investment adviser with the Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

**Additional information about Private Equity Investments, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 1: COVER PAGE**

Please refer to previous page.

## **ITEM 2: MATERIAL CHANGES**

This Brochure dated May 18, 2011, is a new document prepared in accordance with the new requirements and rules adopted by the United States Securities and Exchange Commission (“SEC”). Previously, investment advisers provided clients and prospective clients with a copy of Form ADV Part II, which was in a “check-the-box” format with certain narrative explanations included on Schedule F. On July 28, 2010, the SEC adopted revisions to Form ADV, which require investment advisers to provide narrative, plain English disclosures regarding their advisory business in order to provide clients and prospective clients with more meaningful information about the adviser and its business practices. Accordingly, this Brochure is materially different in structure and requires certain new information that the previous brochure did not require.

Because of the amount of new details provided within the brochure, Private Equity Investments, Inc. encourages each client to read this Brochure carefully and to call us with any questions you may have. In particular, please note the following items contain either new or additional information:

### **Item 4 - Advisory Business**

### **Item 6 - Performance-Based Fees and Side-by-Side Management**

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

### **Item 9 - Disciplinary Information**

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

### **Item 15 - Custody**

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

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

Our prior Disclosure Brochure was dated April 26, 2011. The updates we made to this Disclosure Brochure were not material in nature and were made to: (i) Item 4 –, Advisory Business - and, (ii) Item 18 – Financial Information.

Pursuant to new SEC rules, we will ensure that clients receive a summary of any materials changes to this Brochure, along with an offer to provide a full copy of this Brochure upon request, within 120 days of the close of our fiscal year. Additionally, should we make material changes in the future; we will send you a summary of our “Material Changes” under separate cover, along with the same offer. For more information about the firm, please call (949) 723-0902. Additional information about Private Equity Investments, Inc. and its investment adviser representatives is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4: Advisory Business

### A. Description of Firm

Private Equity Investments, Inc. (“**PEI**”) is a Newport Beach, California based investment management firm, founded in 2002. We provide investment management services on a discretionary basis (as more fully described below) to individuals, high net worth individuals, pension and profit sharing plans, and corporations and other businesses.

We are currently registered with the Securities and Exchange Commission as an investment adviser and conduct business in certain states, which are reflected in Part 1 of our Form ADV, a copy of which can be found on [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### B. Principal Owners

Robert L. Langsam is the principal owner of **PEI** and also serves as the President and Chief Compliance Officer.

### C. Types of Advisory Services Offered

**PEI** offers investment supervisory and management services by offering clients multiple asset management programs each having a specific investment style as described further below. These programs are named as follows:

- **Defensive Growth Portfolio**
- **Capital Growth & Income**
- **Strategic Asset Allocation**
- **Fixed Income Securities**
- **Options Income**
- **Speculative Growth**
- **Balanced Growth & Income**

The **Defensive Growth Portfolio** and **Balanced Growth & Income** programs provide clients an opportunity to select from several portfolio investment styles.

At the beginning of the client relationship, an investment adviser representative (“IAR”) of **PEI** gathers financial data and investment objective information from clients, including individual risk tolerance, investment timeline, and any specific restrictions clients may have. We document this information by having each client complete a confidential Client Profile, which is part of the agreement executed between **PEI** and each client. Based on the information in the Client Profile, the IAR assists clients in setting appropriate investment risk objectives and determining which **PEI** program(s) is suitable and in line with the client’s overall investment guidelines.

We will periodically (in most cases annually) communicate with clients (either in writing or by scheduling a meeting) to review the confidential Client Profile and determine if there have been any

material changes to the information contained therein. Clients, however, are responsible for informing us anytime there are changes to the information in their Client Profile and should not wait for the annual meeting. In addition, we do not assume any responsibility for the accuracy of the information provided to us by the client.

For one or more of our investment programs, we may enter into a sub-advisory arrangement with a third party adviser (“TPA”) to provide portfolio management services. Once a TPA is selected, **PEI** continues to monitor the chosen manager to ensure the TPA adheres to the philosophy and investment style for which they were selected. **PEI**'s ongoing review may include, but is not limited to, assessment of the TPA's disclosure brochures, performance, on-site visits, materials supplied by the TPA (including questionnaire responses), evaluation of the manager's other investment strategies, personnel turnover, regulatory events, and ownership changes.

PEI does not participate in or sponsor wrap programs.

Prior to entering into an investment management agreement with **PEI**, a client should carefully consider:

- (a) committing to management only those assets that the client believes will not be needed for current purposes and that can be invested on a long-term basis;
- (b) that volatility from investing in the stock market can occur; and
- (c) that over time the client's assets may fluctuate and at anytime be worth more or less than the amount invested.

#### **D. Advisory Agreements**

Prior to engaging **PEI** to provide investment supervisory and management services, clients are required to enter into a written *Investment Management Agreement* (the “Agreement”) with us setting forth the terms and conditions of the engagement, the fees to be paid and the scope of the services to be provided.

In accordance with Rule 204-3 under the Investment Advisers Act of 1940, as amended (“Advisers Act”), we will provide a Brochure and one or more Brochure supplements (Form ADV Part 2B) to each client or prospective prior to or at the same time of the execution of an Agreement. Any client who has not received a copy of our Brochure at least forty-eight (48) hours prior to executing the Agreement shall have five (5) business days subsequent to executing the Agreement to terminate our services without penalty (except the client shall be responsible for any transactions executed prior to receipt of written notice of cancellation). Thereafter, the Agreement may be terminated by either party for any reason effective upon receipt of written notice to the other party (“Termination Date”). The client may provide written notice in the form of an ACAT (account transfer instructions to the clearing firm initiated from another clearing firm at the client's direction) and have the account directly transferred in kind, to another clearing firm. If a client instructs us to liquidate the account and deliver the proceeds payable to the client or other clearing firm, the client will be charged at normal brokerage commission rates. In this instance, we will have a period of 72 hours to begin liquidations unless special circumstances apply. The terminating client will be entitled to a prorated refund of any prepaid unearned quarterly management fees based upon the number of days remaining in the quarter after the termination date.

Neither **PEI** nor the client may assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of **PEI** shall not be considered an assignment.

**E. Assets under Management**

As of December 31, 2010, the following represents the amount of client assets under management by **PEI** on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$11,105,633.00
Non-Discretionary	\$0.00
Total:	<b>\$11,105,633.00</b>

**ITEM 5: FEES AND COMPENSATION**

**A. Investment Management Fees**

Clients will pay an annual management fee for each of the asset management programs as set forth further below. Under certain circumstances the management fee is negotiable, and the fee is billed and payable quarterly in advance. For purposes of calculating management fees and providing quarterly performance reports, the account quarter will begin on the first day of the next calendar quarter month in which the account is accepted by us. The management fee will be adjusted to include the number of days remaining in the prior quarter from the date of account acceptance, and/or for additional deposits made into the account.

If the IAR is also a registered representative of a broker/dealer and has earned commissions within the past two (2) years on the assets (cash or securities) being transferred under one of the asset management programs, the client may be entitled to a credit for a portion of the management fee.

The initial management fee is due at the beginning of the quarter following the client's execution of the Agreement and the fee will be calculated based on the date of the client's deposit of assets or when the account is transferred to the custodian. The initial quarterly fee will include the prorated fee for the initial quarter in addition to the standard quarterly fee for the upcoming quarter.

Subsequent management fee payments are due and will be assessed at the beginning of each calendar quarter based on the value of the current assets under management as of the close of business on the last business day of the preceding quarter. Portfolio assets are valued in such a manner as is reasonably determined in good faith by us to reflect the fair market value thereof. Additional deposits of funds and/or securities will be subject to the same billing procedures. This includes deposits of no-load and load-waived mutual funds, equities, fixed income, load mutual funds and any other securities approved by us for investment.

In addition to the management fee, clients whose assets are held at a custodian or other broker-dealer clearing/custodial firm, other than Schwab Institutional ("SI") are assessed a transaction charge on each trade by **PEI**. The transaction charge will appear on each trade confirmation and is paid to us by the custodian from the client's account. These charges are assessed to help offset the

trading costs incurred by us in trading the client's account through other custodians. For clients whose assets are held at SI, clients are assessed a transaction fee on each trade by SI, and the transaction fee is paid from the client's account directly to SI.

To help defray our administrative costs for certain programs, clients in such programs will be charged a onetime set-up fee at the time the client account is opened. Applicable transaction charges and set-up fees are discussed further below.

In the Agreement executed by the client, the client authorizes their custodian to deduct all management fees and any applicable transaction charges and set-up fees from the client's account and pay such fees directly to **PEI**, unless other arrangements have been made by the client in writing. All such fees and charges will be clearly noted on the client's brokerage account statements and/or confirmations, and the management fee and how the fee was calculated will also be clearly outlined on an invoice provided with the client's quarterly performance report. It is the client's responsibility (and not the custodian's) to ensure that the management fee and its calculation in relation to the client's account is correct. In the event that we are unable to collect from the custodian any investment management fees due, we will bill the client for that amount.

Clients are hereby advised that lower fees for comparable services may be available from other investment advisory firms.

### **1. DEFENSIVE GROWTH PORTFOLIO**

The annual management fee schedule for a **DGP** account is described below. The account will not be charged any compensation which is based on a share of capital gains or capital appreciation.

<b>Portfolio Value</b>	<b>Maximum Fee</b> <sup>(1)(2)(3)</sup>
\$250,000 - \$ 500,000	2.25%
\$500,001 - \$ 750,000	2.00%
\$750,001 - \$1,500,000	1.75%
Amounts Over \$1,500,000	1.25%

An initial set-up fee of \$50.00 will be charged for each account. Accounts with less than \$250,000 at the end of a calendar quarter will be assessed \$10.00.

- <sup>(1)</sup> Under certain circumstances, management fees may be negotiated.
- <sup>(2)</sup> Fees are automatically deducted quarterly from the **DGP** account. The management fee is paid to **PEI**, and the IAR receives a percentage of that fee.
- <sup>(3)</sup> Although **PEI** believes these fees and charges are competitive, lower or higher fees may be found for comparable services.

### TRANSACTION CHARGES FOR DGP ACCOUNTS:

#### If client's assets are held at Schwab Institutional:

In addition to the management fee, a client is assessed a transaction fee for each executed transaction by Schwab Institutional. Such transaction fee is paid from a client's account directly to Schwab Institutional and noted on the trade confirmation.

#### If client's assets are held at custodian or other broker-dealer clearing/custodial firm, other than Schwab Institutional:

In addition to the management fee, a client is assessed a transaction charge by us to defray costs associated with execution, clearing and handling of orders. The IAR does not receive any portion of the transaction charge.

### TICKET CHARGES PER TRADE

(TRADE SIZE DOES NOT AFFECT TICKET CHARGES)

	STOCK & FUND	OPTION	BOND
PORTFOLIO SIZE:	TRADES	TRADES	TRADES
\$250,000 - \$ 500,000	\$18.00	\$15.00	\$45.00
\$500,001 - \$ 750,000	\$18.00	\$20.00	\$50.00
\$750,001 - \$1,500,000	\$18.00	\$24.00	\$55.00
Amounts Over \$1,500,000	\$18.00	\$27.50	\$65.00

## 2. CAPITAL GROWTH AND INCOME

The annual management fee schedule for the **CGI** account is described below. The account will not be charged any compensation which is based on a share of capital gains or capital appreciation.

Portfolio Value	Maximum Fee <sup>(1)(2)(3)</sup>
\$ 250,000 - \$ 500,000	2.50%
\$ 500,001 - \$ 750,000	2.00%
\$ 750,001 - \$1,500,000	1.75%
Amounts Over \$1,500,000	1.25%

An initial set-up fee of \$50.00 will be charged for each account. Accounts with less than \$200,000 at the end of a calendar quarter will be assessed \$10.00.



- (1) Under certain circumstances, management fees may be negotiated.
- (2) Fees are automatically deducted quarterly from the **CGI** account. The management fee is paid to **PEI** and the IAR receives a percentage of that fee.
- (3) Although **PEI** believes these fees and charges are competitive, lower or higher fees may be found for comparable services.

#### **TRANSACTION CHARGES FOR CGI ACCOUNTS:**

##### **If client's assets are held at Schwab Institutional:**

In addition to the management fee, the client is assessed a transaction fee for each executed transaction by Schwab Institutional. Such transaction fee is paid from the client's account directly to Schwab Institutional and noted on the trade confirmation.

##### **If client's assets are held at custodian or other broker-dealer clearing/custodial firm, other than Schwab Institutional:**

In addition to the management fee, the client is assessed a transaction charge by us to defray costs associated with execution, clearing and handling of orders. The IAR does not receive any portion of the transaction charge.

#### **TICKET CHARGES PER TRADE**

(TRADE SIZE DOES NOT AFFECT TICKET CHARGE)

	<b>STOCK</b>	<b>FUND</b>	<b>OPTION</b>	<b>BOND</b>
<b><u>PORTFOLIO SIZE:</u></b>	<b><u>TRADES</u></b>	<b><u>TRADES</u></b>	<b><u>TRADES</u></b>	<b><u>TRADES</u></b>
<b>ALL ACCOUNTS</b>	<b>\$18.00</b>	<b>\$20.00</b>	<b>\$25.00</b>	<b>\$20.00</b>

### **3. STRATEGIC ASSET ALLOCATION**

The annual management fee schedule for the **SAA** account is described below. The account will not be charged any compensation which is based on a share of capital gains or capital appreciation.

<b>Portfolio Value</b>	<b>Maximum Fee <sup>(1)(2)(3)</sup></b>
\$100,000 - \$ 250,000	2.20%
\$250,001 - \$ 500,000	2.00%
\$500,001 - \$1,500,000	1.75%
Amounts Over \$1,500,000	1.25%

An initial set-up fee of \$50.00 will be charged for each account. Accounts with less than \$100,000 at the end of a calendar quarter will be assessed \$10.00.

- (1) Under certain circumstances, management fees may be negotiated.
- (2) Fees are automatically deducted quarterly from the **SAA** account. The management fee is paid to **PEI** and the IAR receives a percentage of that fee.
- (3) Although **PEI** believes these fees and charges are competitive, lower or higher fees may be found for comparable services.

**TRANSACTION CHARGES FOR SAA ACCOUNTS:**

**If client's assets are held at Schwab Institutional:**

In addition to the management fee, the client is assessed a transaction fee for each executed transaction by Schwab Institutional. Such transaction fee is paid from the client's account directly to Schwab Institutional and noted on the trade confirmation.

**If client's assets are held at custodian or other broker-dealer clearing/custodial firm, other than Schwab Institutional:**

In addition to the management fee, the client is assessed a transaction charge to defray costs associated with execution, clearing and handling of orders. The IAR does not receive any portion of the transaction charge. **The transaction charge is \$25.00 on each stock, and option transaction, and \$45.00 for each bond transaction.**

**4. FIXED INCOME SECURITIES**

The annual management fee schedule for the **FIS** account is described below. The account will not be charged any compensation which is based on a share of capital gains or capital appreciation.

<b>Portfolio Value</b>	<b>Maximum Fee</b> <sup>(1)(2)(3)</sup>
\$1,000,000 - \$1,500,000	.750%
\$1,500,001 - \$2,500,000	.675%
Amounts Over \$2,500,000	.550%

An initial set-up fee of \$50.00 will be charged for each account. Accounts with less than \$500,000 at the end of a calendar quarter will be assessed \$10.00.

- (1) Under certain circumstances, management fees may be negotiated.
- (2) Fees are automatically deducted quarterly from the **FIS** account. The management fee is paid to **PEI**, and the IAR receives a percentage of that fee.
- (3) Although **PEI** believes these fees and charges are competitive, lower or higher fees may be found for comparable services.

**TRANSACTION CHARGES FOR FIS ACCOUNTS:**

**If client's assets are held at Schwab Institutional:**

In addition to the management fee, the client is assessed a transaction fee for each executed transaction by Schwab Institutional. Such transaction fee is paid from the client's account directly to Schwab Institutional and noted on the trade confirmation.

**If client's assets are held at custodian or other broker-dealer clearing/custodial firm, other than Schwab Institutional:**

In addition to the management fee, the client is assessed a transaction charge to defray costs associated with execution, clearing and handling of orders. The IAR does not receive any portion of the transaction charge.

**TICKET CHARGES PER TRADE**

(TRADE SIZE DOES NOT AFFECT TICKET CHARGES)

	<b>STOCKS</b>	<b>BOND</b>
<b>PORTFOLIO SIZE:</b>	<b>UIT'S/OTHER</b>	<b>TRADES</b>
All Accounts	\$18.00	\$50.00

**5. OPTIONS INCOME FOR LOW COST BASIS STOCK**

The annual management fee schedule for the **OptIn** account is described below. The account will not be charged any compensation which is based on a share of capital gains or capital appreciation.

<b>Portfolio Value</b>	<b>Maximum Fee</b> <sup>(1)(2)(3)(4)</sup>
\$ 1,000,000 - \$ 2,500,000	2.25%
\$ 2,500,001 - \$ 5,000,000	2.00%
\$ 5,000,001 - \$ 7,500,000	1.75%
\$ 7,500,001 - \$15,000,000	1.50%
Accounts Over \$15,000,000	1.25%

- (1) Under certain circumstances, management fees may be negotiated.
- (2) Fees are automatically deducted quarterly from the **OptIn** account, and paid to **PEI**.
- (3) The IAR receives a percentage of the management fee paid to **PEI**.
- (4) Although **PEI** believes these fees and charges are competitive, lower or higher fees may be found for comparable services.

**TRANSACTION CHARGES FOR OPTIN ACCOUNTS:**

In addition to the management fee, the client is assessed a transaction fee for each executed transaction by Schwab Institutional. Such transaction fee is paid from the client's account, directly to Schwab Institutional or applicable custodian broker.

**6. SPECULATIVE GROWTH**

The annual management fee schedule for the **SPEC** account is described below. The account will not be charged any compensation which is based on a share of capital gains or capital appreciation.

<b>Portfolio Value</b>	<b>Maximum Fee</b> <sup>(1)(2)(3)</sup>
\$250,000 - \$ 500,000	2.75%
\$500,001 - \$1,000,000	2.50%
Amounts Over \$1,000,000	2.00%

An initial set-up fee of \$50.00 will be charged for each account. Accounts with less than \$250,000 at the end of a calendar quarter will be assessed \$10.00.

- (1) Under certain circumstances, management fees may be negotiated.
- (2) Fees are automatically deducted quarterly from the **SPEC** account. The management fee is paid to **PEI** and the IAR receives a percentage of that fee.
- (3) Although **PEI** believes these fees and charges are competitive, lower or higher fees may be found for comparable services.

**TRANSACTION CHARGES FOR SPEC ACCOUNTS:**

**If client's assets are held at Schwab Institutional:**

In addition to the management fee, the client is assessed a transaction fee for each executed transaction by Schwab Institutional. Such transaction fee is paid from the client's account directly to Schwab Institutional and noted on the trade confirmation.

**If client's assets are held at custodian or other broker-dealer clearing/custodial firm, other than Schwab Institutional:**

In addition to the management fee, the client is assessed a transaction charge by **PEI** to defray costs associated with execution, clearing and handling of orders. The IAR does not receive any portion of the transaction charge. **The transaction charge is \$50.00 on each Option trade, and \$18.00 on each Stock trade.**

## **7. BALANCED GROWTH & INCOME PORTFOLIO**

The annual management fee schedule for a **BGI** account is described below. The account will not be charged any compensation which is based on a share of capital gains or capital appreciation.

<b>Portfolio Value</b>	<b>Maximum Fee</b> <sup>(1)(2)(3)</sup>
\$ 500,001 - \$1,000,000	1.50%
\$1,000,001 - \$2,500,000	1.25%
Amounts Over \$2,500,000	1.10%

An initial set-up fee of \$50.00 will be charged for each account. Accounts with less than \$250,000 at the end of a calendar quarter will be assessed \$10.00.

- (1) Under certain circumstances, management fees may be negotiated.
- (2) Fees are automatically deducted quarterly from the **BGI** account. The management fee is paid to **PEI**, and the IAR receives a percentage of that fee.
- (3) Although **PEI** believes these fees and charges are competitive, lower or higher fees may be found for comparable services.

### **TRANSACTION CHARGES FOR DGP ACCOUNTS:**

#### **If client's assets are held at Schwab Institutional:**

In addition to the management fee, a client is assessed a transaction fee for each executed transaction by Schwab Institutional. Such transaction fee is paid from a client's account directly to Schwab Institutional and noted on the trade confirmation.

#### **If client's assets are held at custodian or other broker-dealer clearing/custodial firm, other than Schwab Institutional:**

In addition to the management fee, a client is assessed a transaction charge by us to defray costs associated with execution, clearing and handling of orders. The IAR does not receive any portion of the transaction charge. **The transaction charge is \$50.00 on each Bond trade, and \$18.00 on each Stock/UIT trade.**

### **B. Other Fees or Expenses**

Clients may also incur certain charges imposed by third parties other than **PEI** and the IAR in connection with investments made through their account. These fees and charges are separate and distinct from the fees and charges stated above and may include, but not be limited to: mutual fund 12b-1 fees, certain deferred sales charges on previously purchased mutual funds transferred into the account, other transaction related fees, and IRA and Qualified Retirement Plan fees, interest charged on margin borrowing, bank service fees, interest charged on debit balanced, "spreads" imposed by brokers and dealers representing implicit transaction costs and transfer taxes. Further information regarding charges and fees assessed by a mutual fund is available in the appropriate prospectus. Transactions, in which we purchase fixed income securities including Notes, Unit

Investment Trusts, and Bonds, may generate a concession and or commission, which the broker-dealer may apply to reduce trade and execution costs. The IAR does not receive any portion of these fees. Transaction charges, if applicable would not be charged in these situations. The IAR would not receive any portion of the trading cost reductions, but may receive a portion of third party fees. **Clients should be aware that such an arrangement inherently creates the possibility for a conflict of interest.** In addition, clients should understand that **PEI** is not responsible for and does not receive any of these fees or charges.

**PEI**, and the IAR, in connection with the performance of their respective services, shall be entitled to and will share in the management fees payable hereunder. **PEI** and the IAR shall not be compensated on the basis of a share of capital gains or capital appreciation of the funds or any portion of the funds of a client.

The IAR receives compensation as a result of the client's participation in **PEI** asset management programs. The amount of this compensation may be more or less than what the IAR would receive if the client participated in other programs or paid separately for investment advice, brokerage, and other client services. Therefore, the IAR may or may not have a financial incentive to recommend **PEI** over other programs and services.

Clients should understand and consider that **PEI** asset management programs may cost the client more or less than purchasing such services separately. Factors that bear upon the cost of the **PEI** asset management program accounts in relation to the cost of the same services purchased separately include: the type and size of the account, the historical and/or expected size or number of trades for the account, the percentage of no transaction fee funds held in the account, and the number and range of supplementary advisory and client related services provided to the account.

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

**PEI** does not charge performance-based fees (*i.e.*, fees calculated based on a share of capital gains on or capital appreciation of the client's assets or any portion of the client's assets). Consequently, we do not engage in side-by-side management of accounts that are charged a performance-based fee with accounts that are charged another type of fee (such as assets under management). As described above, we provide our services for a management fee that is based upon a percentage of a client's assets under management, which is in accordance with SEC Rule 205(a)(1). Notably, accounts that are managed in the same style (*e.g.*, moderately aggressive) may not be managed the same way due to the client's overall investment objective, discretion of the investment professional assigned to the account, asset size and account restrictions.

## **ITEM 7: TYPES OF CLIENTS**

### **A. Description**

Most of the asset management programs offered by us are suitable for individuals, including qualified and non-qualified accounts, trusts, pension plans and profit sharing plans, estates, charitable organizations, corporations and other business entities. Please see below for the particular types of clients suitable by program.

**DGP** is available for individual qualified and non-qualified accounts, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

**CGI** is available for individual qualified and non-qualified accounts, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

**SAA** is available for individual qualified and non-qualified accounts, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

**FIS** is available for individual qualified and non-qualified accounts, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

**OptIn** is available for clients who own a stock position having a low cost basis, and are not willing to sell the position for a multitude of reasons, and are seeking current income from these positions in addition to the dividend income they may be receiving. The client may be individuals with qualified and non-qualified accounts, certain trusts, charitable organizations, corporations and other business entities.

**SPEC** is not suitable for all clients and is available for individual non-qualified accounts and certain business entities.

**BGI** is available for individual qualified and non-qualified accounts, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

### **B. Conditions for Managing Accounts**

**PEI** requires a minimum account value for each program, which are outlined below. Under certain circumstances, the minimum account size may be lowered at our sole discretion.

**DGP** requires a minimum account value of \$250,000.

**CGI** requires a minimum account value of \$250,000.

**SAA** requires a minimum account value of \$100,000.

**FIS** requires a minimum account value of \$1,000,000.

**OptIn** requires a minimum account value of \$1,000,000.

**SPEC** requires a minimum account value of \$250,000.

**BGI** requires a minimum account value of \$500,000.

There may be times when certain restrictions are placed by a client, which prevents us from accepting or continuing to manage their managed assets. **PEI** reserves the right to not accept and/or terminate management of a client's managed assets if we feel that the client imposed restrictions would limit or prevent us from meeting and/or maintaining the client's overall investment guidelines or our investment strategies.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Methods of Analysis, Investment Strategies and Risks of each Program**

**1. Defensive Growth Portfolio (DGP):** Many investors believe that diversification is a form of risk management. In reality, diversification is not risk management. Diversification is

simply spreading your risk over a larger area, and the level of capital exposure is not specifically known. Risk management entails a strategy to limit capital exposure to a predetermined range or objective.

Most investors are aware of the risk and reward concept. However, all too often few investors apply this concept to measure their portfolio success relative to the underlying risk taken. In volatile markets, such as today's, and undoubtedly in the days to come, the failure to consider the level of risk taken can result in substantial portfolio losses. It is simply not prudent to invest for profit without regard to risk of loss. Stock market corrections are an inevitable part of investing, however, their timing is uncertain. While most investors may never want to experience them, the fact is that market declines are a natural part of the investment process. That is why we are offering the **DGP** which is managed by Mr. Robert Langsam.

The client may choose from three distinct investment styles **(1) DGP Growth** which invests primarily in equities for capital growth within a clients risk objective; **(2) DGP Growth and Equity Income**, which invests up to 90% in dividend paying equities, and fixed income securities with an objective of providing current income and longer term growth within a clients risk objective; and **(3) DGP Balanced** which will invest in both equities and short to intermediate fixed income securities which may include, but not be limited to Notes, Unit Investment Trusts, Corporate Bonds, Municipal Bonds, Government issued or backed securities, money market funds, Bank Certificate of Deposits, Commercial Paper, Reverse Convertibles, and Equity-Linked securities, with up to a 70% allocation in either, depending on market conditions within a clients risk objective.

**Custom Tailored Portfolios** – Each portfolio is custom tailored to meet the client's investment objectives and risk parameters. The Client can decide on the **Asset Allocation Style** between stocks and bonds and this will be noted on Exhibit B of the Investment Management Agreement under the section Investment Guidelines, otherwise the Manager will determine the allocation based on market and economic conditions. The focus then will be made on identifying target sectors that have demonstrated different behavior characteristics during various economic and capital market cycles.

The portfolio's objective is to provide investors the potential for capital appreciation within a defined range of capital risk, and to seek investment opportunities based on changing market and economic factors. Past performance does not guarantee future results, and there is no assurance that the objective of capital appreciation can be achieved.

**Investment Strategy** – The objective of the **DGP** is to seek capital appreciation while establishing a predetermined range of capital risk. Capital appreciation can never be guaranteed. However, the portfolio strategy will seek to manage the level of investment risk. Portfolio holdings are diversified by industry sector, and intended to be held for the longer term. Sector allocations will be determined employing a Tactical Asset Allocation approach which uses periodic assumptions regarding the performance and characteristics of the assets and/or the economy. This approach attempts to improve portfolio performance by making "mid-course" changes in the long-term strategy based on near-term expectations. Different asset mixes provide alternative combinations of risk and reward and a well diversified portfolio allocation will mitigate some of the market's volatility.

**Options** – One of the most common and best methods of limiting risk or protecting investments is the use of both Put and Call Options. Option strategies are employed extensively in the purchase of



specific securities within the targeted sectors to mitigate risk of capital loss. They may be subsequently used to protect future losses or to secure current gains.

The Client may decide that the Manager is restricted from or limited in the use of Option strategies, and this will be noted on Exhibit B of the Investment Management Agreement under the section Investment Guidelines.

**Risk Collar** – The “risk collar” strategy is used to provide low risk protection and is created by selling an equal number of call options as put options being purchased on a long stock position. The call sale finances the put purchase, thus reducing the overall premium paid for the position, or even generating positive cash flow. This strategy while limiting the downside risk, does however, limit the upside potential gain. Both the downside and the upside of the collar have predefined risks and rewards, and this will not change as the stock price changes.

**Debit (Bear) Spread** – The “debit (bear) spread” strategy is created by selling an equal number of put options as put options being purchased under the “risk collar” strategy, at a contract strike price of equal or lower price, having the same or earlier contract expiration date. The put sale finances the put purchase, thus reducing the overall premium paid for the position, and generates immediate portfolio cash income. The position is considered a covered position since the long put position covers the short put sale. The risk in the “debit spread” strategy is when the underlying security falls in price below that of the strike price of the put sold at expiration of the contract. The downside protection afforded is then limited to the “debit spread”, which is the price difference between the strike price of the long put and the strike price of the short (sold) put. As a result, the underlying security may not be assigned at the higher long put strike price, but rather, will continue to be held in the portfolio. The position will be net of the gain on the “debit spread”, but still held in the portfolio at a price higher than the then trading market price, which could be substantially lower.

**Short Put (Naked) Sale** – This strategy may be employed in non-qualified accounts, and is used mostly during the portfolio implementation stage, but may be used at subsequent times when the portfolio has current cash available or becoming available for investment. As an alternative to purchasing a specific security a put option having a strike price “out of the money” (being a price below that of the market price) is sold on margin, requiring less than the full purchase cost in cash. The contract expiration would usually be short term (less than a year). The sale results in immediate cash income to the portfolio which may be realized should the security continue to trade at or higher than the strike price of the put sold. The risk inherent in this strategy is that should the price of the security drop lower than the strike put price the account would be required to purchase the security at the contract strike price. This may result in substantial losses, or an over weighing of a single position in the account.

**Cash Secured Put Options** – This strategy is employed in qualified accounts, and is used mostly during the portfolio implementation stage, but may be used at subsequent times when the portfolio has current cash available or becoming available for investment. As an alternative to purchasing a specific security a put option having a strike price “out of the money” (being a price below that of the market price) is sold which provides immediate cash income to the portfolio. The sale is considered cash secured since the portfolio would have sufficient cash on hand to purchase the security. The contract expiration would usually be short term (less than a year). The income to the portfolio will be realized should the security continue to trade at or higher than the strike price of the put option contract sold. The risk inherent in this strategy is that should the price of the security

decline lower than the strike price of the put contract, the account would be required to purchase the security at a price greater than the current market price. This may result in substantial losses, or an over weighing of a single position in the account.

**Call Options & Vertical (Bull) Spreads** – In addition to the “covered call” option employed in the risk collar strategy (see above description), call options may be purchased (“long call”) as an alternative to purchasing a specific security, usually having a strike price “out of the money” (being a price above that of the market price). This strategy reduces the risk of a market decline in the underlying security to the price of the long call option premium paid. The result may be the entire loss of the purchase price of the long call option should the underlying security not increase in price equal to that of the strike price of the long call option plus the cost (premium) paid for the long call, by the option expiration date. To further reduce this risk, and the cost of the long call, the sale of a call option(s) having a strike price greater than the strike price of the long call may be sold (“covered call”). This may limit the potential gain to the difference in the strike prices of the long (purchased) call and the covered (sold) call option. This strategy is sometimes referred to as a “vertical or bull spread”, and can only be employed in non-qualified accounts. The strategy of buying call options or establishing vertical spreads may be married with the sale of a put option to further reduce the cost of the long call option purchased or vertical spread cost (see Short Put, and Cash Secured Put Options above).

**Risk Reversal** – To finance the cost of the long call option we may sell a put option (cash secured or naked) usually at or out of the money, and usually within an expiration period shorter than the long call option, but not exceeding the expiration of the long call option. The risk inherent in this strategy is that should the price of the security drop lower than the strike put price the account would be required to purchase the security at the contract strike price. This may result in substantial losses, or an over weighing of a single position in the account.

**The Client should be aware that there are other risks associated with options.** Option positions may be adversely affected by company specific issues (the issuer of the underlying security) which may include but are not limited to bankruptcy, insolvency, failing to file with regulatory bodies, being delisted, having trading halted or suspended, corporate reorganizations, asset sales, spin offs, stock splits, mergers and acquisitions. In addition, market related actions, political issues, and economic issues may adversely affect the option market. These factors could restrict, halt, suspend, or terminate option positions written (sold) or purchased under the **DGP** program which would prevent **PEI** from an ability to act or react to any of these conditions.

**Note:** Options involve risk and are not suitable for everyone. Prior to buying or selling options, you must read the option disclosure document, Characteristics and Risks of Standardized Options, which can be obtained from any exchange on which options are traded, by calling 1-888-OPTIONS, or by contacting the broker-dealer, or their clearing firm. Consult your tax advisor for tax considerations before entering into spread transactions.

The risks most commonly associated with fixed income securities are:

- **Market Risk:** The price of the security 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.

- **Interest Rate Risk:** The risk that the value of an interest-bearing investment will change due to changes in the general level of interest rates in the market. The market value of a bond fluctuates inversely to the change in interest rates; that is, as interest rates rise, bond prices fall and vice versa.

Interest rate risk is commonly measured by a bond's duration; the greater a bond's duration, the greater the impact on price of a change in interest rates. Investors may incur a gain or loss from bonds sold prior to the final maturity date.

- **Credit Risk:** The risk that principal and/or interest on a fixed income investment will not be paid in a timely manner or in full due to changes in the financial condition of the issuer. Generally, the higher the perceived credit risk, the higher the rate of interest investors will receive on their investment.

Many bonds are rated by a third party Nationally Recognized Statistical Rating Organization (NRSRO), for example, Moody's Investor Services or Standard & Poor's Inc. While ratings may assist investors to determine the creditworthiness of the issuer, they are not a guarantee of performance. U.S. Treasury bills, notes and bonds are guaranteed by the full faith and credit of the United States and therefore are deemed to carry no risk of default.

- **Reinvestment Risk:** The risk that interest and principal payments from a bond will be reinvested at a lower yield than that received on the original bond. During periods of declining interest rates, bond payments may be invested at lower rates; during periods of rising rates, bond payments may be invested at higher rates.
- **Call Risk:** The risk that a bond will be called by its issuer. A callable bond has a provision which allows the issuer to purchase the bond back from the bondholders at a predetermined price. Generally, issuers call bonds when prevailing rates are lower than the cost of the outstanding bond. Call provisions allow an issuer to retire high-rate bonds on a predefined call schedule.
- **Prepayment Risk:** Some types of bonds are subject to prepayment risk. Similar to call risk, prepayment risk is the risk that the issuer of a security will repay principal prior to the bond's maturity date, thereby changing the expected payment schedule of the bonds.

Prepayment risk is particularly prevalent in the mortgage-backed bond market, where a drop in interest rates can trigger a refinancing wave. When investors in a bond comprised of the underlying pool of mortgages receives his or her principal back sooner than expected, they may be forced to reinvest at prevailing, lower rates.

- **Liquidity Risk:** The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Liquidity risk is typically reflected in a wide bid-ask spread or large price movements.
- **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.
- **Opportunity Cost Risk:** The risk that an investor may forego profits or returns from other investments.

**2. Capital Growth & Income (CGI):** The investment objective of the CGI program is to achieve long-term capital growth while providing current income through the purchase of common

stocks believed to be undervalued relative to the market, and generating current income through the sale of both “cash secured put options” and “covered call options”. The **CGI** program is managed by Robert Langsam.

**Investment Strategy** – The objective of the **CGI** program is to generate capital growth by purchasing common stocks believed by the manager to be undervalued relative to the market. These common stocks are selected by analyzing various fundamental, quantitative and other factors about a company, its business and its market. In addition, technical data may be considered, as well as third party research information.

To provide income to the investor call options on some or all of underlying securities held in the portfolio will be sold when the manager deems the opportunity to be appropriate. The sale of the call option generates immediate cash income to the portfolio but contractually gives the buyer of the call option the right to purchase the underlying security at the strike price of the contract. There are alternative strategies the manager may employ to avoid the sale of the underlying security if he believes the potential opportunity warrants the retention of the security.

In addition, income will be provided through the sale of cash secured put options. Rather than purchase a security for the portfolio the manager may sell the put option which generates immediate cash income to the portfolio. If the security declines below the strike price of the put option contract, the manager may be obligated to buy the security which would be at a price below the market price at the time the put option was sold. To provide liquidity in this event, the manager will retain a sizable cash position in the portfolio which is being utilized to generate the put option income.

Stocks generally purchased are believed to demonstrate potential for short or long-term gains, and would be sold when they no longer represent attractive opportunities. Capital appreciation can never be guaranteed.

**Covered Call Options** – To generate current income call options are sold (written) against the underlying securities held in the portfolio. The sale of the call option generates immediate cash income to the portfolio, but gives the buyer of the call option the right to call (purchase) the underlying security at the contract strike price. The strike price and duration of the call option contract are determined to be those that would maximize the portfolio return based on market beliefs at the time of the sale. In the event that the call option is exercised the portfolio will be required to sell the stock at the contract strike price which would be less than the market price at the time. However, the portfolio may still realize a greater price than the market price when combining the call option income received in advance, added to the strike price of the security sold. There is an opportunity cost since the combined sale proceeds may be less than the market price. The risk in this strategy is that the sale may result in short term gains taxed at higher rates than the capital gains rate on long-term gains.

**Cash Secured Put Options** – As an alternative to purchasing a specific security a put option having a strike price “out of the money” (being a price below that of the market price) is sold which provides immediate cash income to the portfolio. The sale is considered cash secured since the portfolio would have sufficient cash on hand to purchase the security. The contract expiration

would usually be short term (less than a year). The income to the portfolio will be realized should the security continue to trade at or higher than the strike price of the put option contract sold. The risk inherent in this strategy is that should the price of the security decline lower than the strike price of the put contract, the account would be required to purchase the security at a price greater than the current market price. This may result in substantial losses, or an over weighing of a single position in the account.

**Short Put (Naked) Sale** – This strategy may be employed in non-qualified accounts, and is used mostly during the portfolio implementation stage, but may be used at subsequent times when the portfolio has current cash available or becoming available for investment. As an alternative to purchasing a specific security a put option having a strike price “out of the money” (being a price below that of the market price) is sold on margin, requiring less than the full purchase cost in cash. The contract expiration would usually be short term (less than a year). The sale results in immediate cash income to the portfolio which may be realized should the security continue to trade at or higher than the strike price of the put sold. The risk inherent in this strategy is that should the price of the security drop lower than the strike put price the account would be required to purchase the security at the contract strike price. This may result in substantial losses, or an over weighing of a single position in the account.

**Covered Put Options** – May be purchased by the portfolio to protect the underlying security from a price decline, and or to secure a current gain. This strategy is primarily used to secure a gain in the underlying security held by the portfolio.

**Debit (Bear) Spread** – The “debit (bear) spread” strategy is created by selling an equal number of put options as put options being purchased under the “risk collar” strategy, at a contract strike price of equal or lower price, having the same or earlier contract expiration date. The put sale finances the put purchase, thus reducing the overall premium paid for the position, and generates immediate portfolio cash income. The position is considered a covered position since the long put position covers the short put sale. The risk in the “debit spread” strategy is when the underlying security falls in price below that of the strike price of the put sold at expiration of the contract. The potential gain or the downside protection afforded is then limited to the “debit spread”, which is the price difference between the strike price of the long put and the strike price of the short (sold) put. As a result, the underlying security may not be assigned at the higher long put strike price, but rather, will continue to be held in the portfolio. The position will be net of the gain on the “debit spread”, but still held in the portfolio at a price higher than the then trading market price, which could be substantially lower.

**Call Options & Vertical (Bull) Spreads** – Call options may be purchased (“long call”) as an alternative to purchasing a specific security, usually having a strike price “out of the money” (being a price above that of the market price). This strategy reduces the risk of a market decline in the underlying security to the price of the long call option premium paid. The result may be the entire loss of the purchase price of the long call option should the underlying security not increase in price equal to that of the strike price of the long call option plus the cost (premium) paid for the long call, by the option expiration date. To further reduce this risk, and the cost of the long call, the sale of a call option(s) having a strike price greater than the strike price of the long call may be sold (“covered call”). This may limit the potential gain to the difference in the strike prices of the long (purchased) call and the covered (sold) call option. This strategy is sometimes referred to as a “vertical or bull spread”, and can only be employed in non-qualified accounts. The strategy of

buying call options or establishing vertical spreads may be married with the sale of a put option to further reduce the cost of the long call option purchased or vertical spread cost (see Short Put, and Cash Secured Put Options above).

**Risk Reversal** – To finance the cost of the long call option we may sell a put option (cash secured or naked) usually at or out of the money, and usually within an expiration period shorter than the long call option, but not exceeding the expiration of the long call option. The risk inherent in this strategy is that should the price of the security drop lower than the strike put price the account would be required to purchase the security at the contract strike price. This may result in substantial losses, or an over weighing of a single position in the account.

In addition to the portfolio's investments in common stocks, and option strategies, the portfolio may invest in other types of securities believed to offer attractive opportunities. These may include, but not be limited to Corporate and Government Bonds, Cash and or cash equivalents, Preferred Stocks, Notes, Agency Issues, UIT's, .REIT's, Equity-Linked Notes and or CD's, Reverse Convertibles, and Commercial paper.

**The Client should be aware that there are other risks associated with options.** Option positions may be adversely affected by company specific issues (the issuer of the underlying security) which may include but are not limited to bankruptcy, insolvency, failing to file with regulatory bodies, being delisted, having trading halted or suspended, corporate reorganizations, asset sales, spin offs, stock splits, mergers and acquisitions. In addition, market related actions, political issues, and economic issues may adversely affect the option market. These factors could restrict, halt, suspend, or terminate option positions written (sold) or purchased under the **CGI** program which would prevent **PEI** from an ability to act or react to any of these conditions.

**Note:** Options involve risk and are not suitable for everyone. Prior to buying or selling options, you must read the option disclosure document, Characteristics and Risks of Standardized Options, which can be obtained from any exchange on which options are traded, by calling 1-888-OPTIONS, or by contacting the broker-dealer, or their clearing firm. Consult your tax advisor for tax considerations before entering into spread transactions.

The risks most commonly associated with fixed income securities are:

- **Market Risk:** The price of the security 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.
- **Interest Rate Risk:** The risk that the value of an interest-bearing investment will change due to changes in the general level of interest rates in the market. The market value of a bond fluctuates inversely to the change in interest rates; that is, as interest rates rise, bond prices fall and vice versa.

Interest rate risk is commonly measured by a bond's duration; the greater a bond's duration, the greater the impact on price of a change in interest rates. Investors may incur a gain or loss from bonds sold prior to the final maturity date.

- **Credit Risk:** The risk that principal and/or interest on a fixed income investment will not be paid in a timely manner or in full due to changes in the financial condition of the issuer.

Generally, the higher the perceived credit risk, the higher the rate of interest investors will receive on their investment.

Many bonds are rated by a third party Nationally Recognized Statistical Rating Organization (NRSRO), for example, Moody's Investor Services or Standard & Poor's Inc. While ratings may assist investors to determine the creditworthiness of the issuer, they are not a guarantee of performance. U.S. Treasury bills, notes and bonds are guaranteed by the full faith and credit of the United States and therefore are deemed to carry no risk of default.

- **Reinvestment Risk:** The risk that interest and principal payments from a bond will be reinvested at a lower yield than that received on the original bond. During periods of declining interest rates, bond payments may be invested at lower rates; during periods of rising rates, bond payments may be invested at higher rates.
- **Call Risk:** The risk that a bond will be called by its issuer. A callable bond has a provision which allows the issuer to purchase the bond back from the bondholders at a predetermined price. Generally, issuers call bonds when prevailing rates are lower than the cost of the outstanding bond. Call provisions allow an issuer to retire high-rate bonds on a predefined call schedule.
- **Prepayment Risk:** Some types of bonds are subject to prepayment risk. Similar to call risk, prepayment risk is the risk that the issuer of a security will repay principal prior to the bond's maturity date, thereby changing the expected payment schedule of the bonds.

Prepayment risk is particularly prevalent in the mortgage-backed bond market, where a drop in interest rates can trigger a refinancing wave. When investors in a bond comprised of the underlying pool of mortgages receives his or her principal back sooner than expected, they may be forced to reinvest at prevailing, lower rates.

- **Liquidity Risk:** The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Liquidity risk is typically reflected in a wide bid-ask spread or large price movements.
- **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.
- **Opportunity Cost Risk:** The risk that an investor may forego profits or returns from other investments.

**3. Strategic Asset Allocation (SAA):** program is managed by Robert Langsam. Prior to June 1, 2009, the SAA program was managed by Bruce Feurig. Prior to July 1, 2008 the SAA program was managed by Todd Jones. Both Mr. Feurig and Mr. Jones are no longer affiliated with PEI.

SAA offers an investment management program which seeks to achieve specific risk limits and reward objectives for client portfolios. The underlying concept of the SAA program is Modern Portfolio Theory ("MPT") which was developed in the 1950's by Professors Henry Markowitz (University of Chicago) and William Sharpe (Stanford University). Markowitz and Sharpe received the Nobel prize in Economics for their work.

MPT showed that, through computer models that diversified among asset classes, the volatility, i.e. risk of investment losses could be reduced. MPT determined a method of diversification called optimization, which sought to provide the maximum, long-term return for the lowest short-term volatility (risk) that an investor is willing to assume.

**SAA** uses a software program that contains historic market indices to “optimize” a prospective client portfolio.

**SAA’s** manager will analyze the current portfolio's risk and rewards parameters. In addition, using the same historical indices, **SAA** will design alternative portfolio's which may have higher or lower volatility, or both, as compared to the client's current portfolio.

In designing portfolio options, **SAA** focuses on different assets classes. Each portfolio is analyzed by the portfolio manager and specific requirements of the investor are integrated into the portfolio options. In some cases, the current portfolio may hold assets which the client does not or may not be able to liquidate. The client may specify social, religious or philosophical limitations which will impact the portfolio design.

The client has the final authority to determine the risk and reward objectives of their portfolio under the **SAA** program. However, the client must realize that the risk and reward objectives are based on historical results, and the client acknowledges that actual portfolio results will vary and the model results are not guarantees of future performance.

**SAA** accounts have no limitation on the type of assets owned, except as specified by the client in the client’s Agreement. All assets purchased by **PEI** on a client's behalf must be able to be liquidated within 180 days. **PEI** will manage the sub-accounts available in variable annuity products, without limitation to the product or issuing insurance carrier owned by the client. However, **PEI** will not purchase annuity products for the client.

The process of asset allocation may include one or all of the following approaches:

**SAA** uses historical data (mean rates of return, standard deviations and covariance’s) in an attempt to understand how the asset has performed and is likely to perform over long periods of time. The goal is not to “beat” the market, but to establish a long-term investment strategy using a core mix of assets.

**Tactical Asset Allocation** – uses periodic assumptions regarding the performance and characteristics of the assets and/or the economy. This approach attempts to improve portfolio performance by making “mid-course” changes in the long-term strategy based on near-term expectations.

**Dynamic Asset Allocation** – involves changes in investor circumstances, which may lead to the modification of policies, objectives and/or risk tolerances. Resulting changes are intended to maintain equilibrium between the investor’s policies and objectives and the asset allocation process.

**4. Fixed Income Securities (FIS):** Today’s investor is confronted with the backdrop of an increasing interest rate environment coupled with an array of unique and complex fixed income securities. For those who want to be free of the equity market volatility and risk, or who seek



current income, and want an actively managed portfolio of fixed income securities, we are offering the **FIS** program which is managed by Mr. Robert Langsam.

**FIS** will invest in short to intermediate term fixed income securities, having credit quality consistent with the clients risk objective. The portfolio will usually be laddered with an average maturity in the 5 to 8 year term, depending on the clients investment objective, and may be entirely taxable, tax free, or a combination to meet client income tax considerations.

**FIS** may include, but not be limited to Notes, Unit Investment Trusts, Corporate Bonds, Municipal Bonds, Government issued or backed securities, money market funds, Bank Certificate of Deposits, Commercial Paper, Reverse Convertibles, and Equity-Linked securities. It is not intended that all of the investments made provide or generate current income, and some may create phantom income or accreted income for tax reporting purposes.

The portfolio will maintain adequate liquidity to meet client income needs and will consider the timing of dividends and interest income to minimize the need for principal cash.

The risks most commonly associated with fixed income securities are:

- **Market Risk:** The price of the security 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.
- **Interest Rate Risk:** The risk that the value of an interest-bearing investment will change due to changes in the general level of interest rates in the market. The market value of a bond fluctuates inversely to the change in interest rates; that is, as interest rates rise, bond prices fall and vice versa.

Interest rate risk is commonly measured by a bond's duration; the greater a bond's duration, the greater the impact on price of a change in interest rates. Investors may incur a gain or loss from bonds sold prior to the final maturity date.

- **Credit Risk:** The risk that principal and/or interest on a fixed income investment will not be paid in a timely manner or in full due to changes in the financial condition of the issuer. Generally, the higher the perceived credit risk, the higher the rate of interest investors will receive on their investment.

Many bonds are rated by a third party Nationally Recognized Statistical Rating Organization (NRSRO), for example, Moody's Investor Services or Standard & Poor's Inc. While ratings may assist investors to determine the creditworthiness of the issuer, they are not a guarantee of performance. U.S. Treasury bills, notes and bonds are guaranteed by the full faith and credit of the United States and therefore are deemed to carry no risk of default.

- **Reinvestment Risk:** The risk that interest and principal payments from a bond will be reinvested at a lower yield than that received on the original bond. During periods of declining interest rates, bond payments may be invested at lower rates; during periods of rising rates, bond payments may be invested at higher rates.
- **Call Risk:** The risk that a bond will be called by its issuer. A callable bond has a provision which allows the issuer to purchase the bond back from the bondholders at a predetermined price. Generally, issuers call bonds when prevailing rates are lower than the cost of the

outstanding bond. Call provisions allow an issuer to retire high-rate bonds on a predefined call schedule.

- **Prepayment Risk:** Some types of bonds are subject to prepayment risk. Similar to call risk, prepayment risk is the risk that the issuer of a security will repay principal prior to the bond's maturity date, thereby changing the expected payment schedule of the bonds.

Prepayment risk is particularly prevalent in the mortgage-backed bond market, where a drop in interest rates can trigger a refinancing wave. When investors in a bond comprised of the underlying pool of mortgages receives his or her principal back sooner than expected, they may be forced to reinvest at prevailing, lower rates.

- **Liquidity Risk:** The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Liquidity risk is typically reflected in a wide bid-ask spread or large price movements.
- **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.

**Opportunity Cost Risk:** The risk that an investor may forego profits or returns from other investments.

**5. Options Income Program (OptIn):** There are many investors who own a stock position having a low cost basis, and are not willing to sell the position for a multitude of reasons, and are seeking current income from these positions in addition to the dividend income they may be receiving. The **OptIn** is designed for these clients, and will be actively managed by **PEI**. The portfolio manager for the **OptIn** Program is Robert Langsam, **PEI's** CEO.

The **OptIn** program employs various option strategies related to the underlying security position with **the objective of seeking current income from the net option premiums realized**, while seeking to retain the low cost basis stock position. In addition, **PEI** will employ option strategies in an effort to help limit the market risk of the option positions written (sold) and bought due to the underlying security's unexpected or sudden sharp increase or decrease in market value.

**PEI** will employ multiple option strategies it believes can mitigate the risk of having the covered Call Option assigned (exercised) towards achieving the objective of generating net option premium income. There is no guarantee that these strategies would ultimately avoid a loss to the client.

**PEI** when writing covered Call Option contracts to realize option premium income will generally employ a staggered strike price and expiration dating strategy ("laddered approach"). In addition, to minimize the risk of Call Option assignment(s), **PEI** will, in addition to U.S. options, employ European style options (which are option contracts that may only be assigned at contract expiration date). **PEI** believes that this strategy will mitigate the risk of premature (before option contract expiration) assignment of the option contract associated with an unexpected or sudden sharp increase in the value of the underlying security. Since European style options may not be exercised until expiration date, **PEI** would have an opportunity to close the short (sold) option position, avoiding the option contract being assigned (exercised), and in turn write (sell) another covered Call Option contract which may mitigate or negate the loss on the closing transaction.

To further limit the potential loss on the covered Call Option contract(s) written (sold) due to market risk associated with an unexpected or sudden sharp increase in the value of the underlying security, **PEI** may buy Call Option contracts at a strike price(s) higher than the strike price(s) of the

covered Call Option contracts written (sold), at a similar or later contract expiration date(s). The client should be aware that the Call Option contract purchased results in a premium cost which will reduce the net income of the covered Call Option contracts sold. This strategy will not avoid a loss to the client, but is intended to limit the potential loss to the spread between the strike price(s) of the Call Option contract(s) purchased, and the lower strike price(s) of the covered Call Option contract(s) written (sold).

Towards the objective of increasing the net option premium income, **PEI** may purchase Put Option contracts anticipating that the underlying security could decline in value. The client should be aware that the Put Option contract purchased results in a premium cost which will reduce the net income of the Call Option contract(s) sold. The Put Option contract could result in additional option premium income should the underlying security decline in value. To reduce the premium cost **PEI** may write (sell) Put Option contracts at a strike price(s) less than the strike price(s) of the Put Option contracts purchased at a similar or later contract expiration date(s).

This strategy is often termed a “Bear Spread” or “Debit Spread” and could reduce the cost of the Put Option contract(s) purchased, but limits the potential gain should the underlying security decline below that of the Put Option contract(s) written (sold). In the event the underlying security declines below the Put Option contract(s) written (sold) the gain is limited to the spread between the strike price(s) of the Put Option contract(s) purchased, and the lower strike price(s) of the Put Option contract(s) written (sold). The client should be aware that this “Bear Spread” or “Debit Spread” results in a net premium cost which will reduce the net income of the Call Option contract(s) written (sold).

The client should be aware of the **RISKS** associated with the OptIn strategy and investment program as described below:

(A) **PEI** will not be responsible for managing the underlying security position which could substantially decline in value. The client may incur additional losses in deciding to liquidate the position or part thereof, while **PEI** has open option positions which will then need to be closed. The client in this program accepts the full responsibility, and complete risk for market fluctuations which may result in substantial losses in the value of the underlying security.

(B) When **PEI** writes (sells) covered Call Options to produce income for a client’s account invested in this program, there may be times when the underlying stock is “called” (call option contract exercised or assigned). If this happens, in order to avoid having to sell the underlying low cost basis stock, **PEI** may have to purchase stock in the open market to satisfy the assigned (exercised) Call Option. This will result in a loss to the client, and the amount of this **loss is not determinable, and could be substantial**. **PEI** will usually purchase Call Option contract(s) at a strike price(s) higher than the strike price(s) of the written (sold) Call Option contract(s) to establish a specific risk limit.

(C) **PEI** may be able to purchase (close) the Call Option contract(s) to avoid the potential contract assignment, and write (sell) another Call Option contract(s) to offset the loss. However, there can be no guarantee this could result in a gain, or avoid the loss to the client, and would depend on the cost of the purchase of the Call Option contract(s), and the income realized on the written (sold) Call Option contract(s).

(D) In the event of (2) and (3) above, the client would be required to carry a margin position on the account which could result in margin interest costs. The client may pay off the margin loan with cash or sell stock to offset the loss.

(E) The client should consult with their tax advisor with respect to the taxation of options. Generally, option premiums realized are treated as current short term income, but in some instances they may adjust the cost basis of the underlying security. The purchase of stock in the open market to satisfy an assignment of a Call Option contract(s), will generally be treated as a short term loss, and could offset income realized in the current year or carried forward to offset income in future years.

(F) PEI may not be able to achieve the income objectives due to the illiquidity of the option market associated with the underlying security. In addition, the volume of contracts PEI may be required to write (sell) or purchase may not be possible without market disruption, resulting in adverse price discrimination affecting the option premiums realized or the option premium cost to close open option positions.

(G) **The Client should be aware that there are other risks associated with options.** Option positions may be adversely affected by company specific issues (the issuer of the underlying security) which may include but are not limited to bankruptcy, insolvency, failing to file with regulatory bodies, being delisted, having trading halted or suspended, corporate reorganizations, asset sales, spin offs, stock splits, mergers and acquisitions. In addition, market related actions, political issues, and economic issues may adversely affect the option market. These factors could restrict, halt, suspend, or terminate option positions written (sold) or purchased under the **OptIn** program which would prevent PEI from an ability to act or react to any of these conditions.

**Note:** Options involve risk and are not suitable for everyone. Prior to buying or selling options, you must read the option disclosure document, Characteristics and Risks of Standardized Options which can be obtained from any exchange on which options are traded, by calling 1-888-OPTIONS, or by contacting the broker/dealer, or the clearing firm. Consult your tax advisor for tax considerations before entering into spread transactions.

**6. Speculative Growth (SPEC):** The objective of the SPEC is to seek maximum trading profit and capital appreciation, either short or long term. The investment strategy employs extensive uncovered (naked) option trading, both put and call options as described below; day trading of both option and stock positions, and other investment strategies by PEI to maximize trading profits. **Speculative Growth** is managed by Robert L. Langsam.

The Client investing in SPEC should understand that this investment program can **RESULT IN SUBSTANTIAL LOSSES, AND THAT THE CLIENT HAS THE FINANCIAL CAPABILITY TO ACCEPT THE POTENTIAL LOSS OF THEIR ENTIRE INVESTMENT. LOSSES MAY EXCEED THE ORIGINAL INVESTMENT.**

**Option** trading for speculation involves a high degree of leverage compared to trading in the underlying security or index, resulting in substantial gains and or losses. The strategies employed within the SPEC program include:

**Call Options & Vertical (Bull) Spreads** – Call options may be purchased (“long call”) having a strike price “out of the money” (being a price above that of the market price). To further reduce the

cost of the long call, the sale of a call option(s) having a strike price greater than the strike price of the long call may be sold (“covered call”). This may limit the potential gain to the difference in the strike prices of the long (purchased) call and the covered (sold) call option. This strategy is sometimes referred to as a “vertical or bull spread”. The strategy of buying call options or establishing vertical spreads may be married with the sale of a put option to further reduce the cost of the long call option purchased or vertical spread cost (see Short Put below). The risk in the “vertical spread” strategy is that if the underlying security falls in price or remains the same, the net cost of the spread will be worthless at expiration of the contracts, resulting in a complete loss of the investment (long call cost less the income on the short call and put sale).

**Short Put or Call (Naked) Sale** – This strategy involves the sale of a put option having a strike price “out of the money” (being a price below that of the market price), or a call option having a strike price “out of the money” (being a price above that of the market price). The contract expiration would usually be short term (less than a year). The sale results in immediate cash income to the portfolio which may be realized should the security continue to trade at or higher than the strike price of the put sold, or at or lower than the strike price of the call sold at their contract expiration. The risk inherent in this strategy is that should the price of the security drop lower than the strike put price, or rise above the strike call price, the account would be required to purchase the security or buy the sold option position back. This may result in substantial losses, or an over weighing of a single position in the account.

**Debit (Bear) Spread** – The “debit (bear) spread” strategy is created by selling an equal number of put options as put options being purchased under the “risk collar” strategy, at a contract strike price of equal or lower price, having the same or earlier contract expiration date. The put sale finances the put purchase, thus reducing the overall premium paid for the position, and generates immediate portfolio cash income. The position is considered a covered position since the long put position covers the short put sale. The risk in the “debit spread” strategy is when the underlying security falls in price below that of the strike price of the put sold at expiration of the contract. The potential gain or the downside protection afforded is then limited to the “debit spread”, which is the price difference between the strike price of the long put and the strike price of the short (sold) put. As a result, the underlying security may not be assigned at the higher long put strike price, but rather, will continue to be held in the portfolio. The position will be net of the gain on the “debit spread”, but still held in the portfolio at a price higher than the then trading market price, which could be substantially lower.

**Risk Reversal** – To finance the cost of the long call option we may sell a put option (cash secured or naked) usually at or out of the money, and usually within an expiration period shorter than the long call option, but not exceeding the expiration of the long call option. The risk inherent in this strategy is that should the price of the security drop lower than the strike put price the account would be required to purchase the security at the contract strike price. This may result in substantial losses, or an over weighing of a single position in the account.

**The Client should be aware that there are other risks associated with options.** Option positions may be adversely affected by company specific issues (the issuer of the underlying security) which may include but are not limited to bankruptcy, insolvency, failing to file with regulatory bodies, being delisted, having trading halted or suspended, corporate reorganizations, asset sales, spin offs, stock splits, mergers and acquisitions. In addition, market related actions, political issues, and economic issues may adversely affect the option market. These factors could restrict, halt, suspend,

or terminate option positions written (sold) or purchased under the **SPEC** program which would prevent **PEI** from an ability to act or react to any of these conditions.

**Note:** Options involve risk and are not suitable for everyone. Prior to buying or selling options, you must read the option disclosure document, Characteristics and Risks of Standardized Options, which can be obtained from any exchange on which options are traded, by calling 1-888-OPTIONS, or by contacting the broker-dealer, or their clearing firm. Consult your tax advisor for tax considerations before entering into spread transactions.

**7. Balanced Growth and Income (BGI):** Today's investor is confronted with the backdrop of an increasing interest rate environment coupled with an array of unique and complex fixed income securities, as well as equity securities paying dividends. For those who seek current income, along with an opportunity for capital growth, and want an actively managed portfolio of both fixed income securities and equities, we are offering the **BGI** program which is managed by Graham Advisory, a sub advisory firm.

**BGI** will invest in short to intermediate term fixed income securities, having credit quality consistent with the clients risk objective. The portfolio will usually be laddered with an average maturity in the 3 to 8 year term, depending on the clients investment objective, and may be entirely taxable, tax free, or a combination to meet client income tax considerations.

**BGI** may include, but not be limited to Notes, Unit Investment Trusts, Corporate Bonds, Municipal Bonds, Government issued or backed securities, money market funds, Bank Certificate of Deposits, Commercial Paper, and Equity-Linked securities, and Reverse Convertible Notes. The portfolio will maintain adequate liquidity to meet client income needs and will consider the timing of dividends and interest income to minimize the need for principal distributions.

In addition, **BGI** may invest in any allocation between fixed income securities, dividend paying stocks, and stocks held for longer term capital appreciation. The allocation is determined by the Client on Exhibit B of the advisory agreement, and may include a specific model portfolio by asset class allocation, and even specific securities.

The risks most commonly associated with fixed income securities are:

- **Market Risk:** The price of the security 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.
- **Interest Rate Risk:** The risk that the value of an interest-bearing investment will change due to changes in the general level of interest rates in the market. The market value of a bond fluctuates inversely to the change in interest rates; that is, as interest rates rise, bond prices fall and vice versa.

Interest rate risk is commonly measured by a bond's duration; the greater a bond's duration, the greater the impact on price of a change in interest rates. Investors may incur a gain or loss from bonds sold prior to the final maturity date.

- **Credit Risk:** The risk that principal and/or interest on a fixed income investment will not be paid in a timely manner or in full due to changes in the financial condition of the issuer.



Generally, the higher the perceived credit risk, the higher the rate of interest investors will receive on their investment.

Many bonds are rated by a third party Nationally Recognized Statistical Rating Organization (NRSRO), for example, Moody's Investor Services or Standard & Poor's Inc. While ratings may assist investors to determine the creditworthiness of the issuer, they are not a guarantee of performance. U.S. Treasury bills, notes and bonds are guaranteed by the full faith and credit of the United States and therefore are deemed to carry no risk of default.

- **Reinvestment Risk:** The risk that interest and principal payments from a bond will be reinvested at a lower yield than that received on the original bond. During periods of declining interest rates, bond payments may be invested at lower rates; during periods of rising rates, bond payments may be invested at higher rates.
- **Call Risk:** The risk that a bond will be called by its issuer. A callable bond has a provision which allows the issuer to purchase the bond back from the bondholders at a predetermined price. Generally, issuers call bonds when prevailing rates are lower than the cost of the outstanding bond. Call provisions allow an issuer to retire high-rate bonds on a predefined call schedule.
- **Prepayment Risk:** Some types of bonds are subject to prepayment risk. Similar to call risk, prepayment risk is the risk that the issuer of a security will repay principal prior to the bond's maturity date, thereby changing the expected payment schedule of the bonds.

Prepayment risk is particularly prevalent in the mortgage-backed bond market, where a drop in interest rates can trigger a refinancing wave. When investors in a bond comprised of the underlying pool of mortgages receives his or her principal back sooner than expected, they may be forced to reinvest at prevailing, lower rates.

- **Liquidity Risk:** The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Liquidity risk is typically reflected in a wide bid-ask spread or large price movements.
- **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.
- **Opportunity Cost Risk:** The risk that an investor may forego profits or returns from other investments.

### **B. Risk of Loss**

PEI's investment programs are subject to various markets, currency, economic, political and business risks, in addition to the specific risks listed under each program above, and such investment programs may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account, which clients should be prepared to bear. There can be no assurance that a client's investment objectives will be obtained and no inference to the contrary is being made. Past performance of investments is no guarantee of future results.

Prior to entering into an agreement with PEI, a client should carefully consider: (1) committing to management only those assets that the client believes will not be needed for current purposes and that can be invested on a long-term basis, usually a minimum of three to five years, (2) that

volatility from investing in the stock market can occur, and (3) that over time the client's assets may fluctuate and at anytime be worth more or less than the amount invested.

PEI does not represent, guarantee or imply that the services or methods of analysis employed by us can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines.

## ITEM 9: DISCIPLINARY INFORMATION

Registered investment advisers such as **PEI** are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of us or the integrity of its management. While **PEI** and Mr. Langsam do not consider the following information to be a material legal or disciplinary event, it is being provided nonetheless in the spirit of full disclosure.

1. In April 2007 Mr. Langsam and his prior employer B.B. Graham & Co., a registered broker-dealer, entered into a Letter of Consent with the State of Alabama and B.B. Graham & Co. paid a fine in the amount of \$1050.00 because the firm was not properly registered in the State of Alabama prior to executing trades in client accounts. Mr. Langsam was not required to participate in the payment of the fine.
2. In January 2011, **PEI** and Mr. Langsam received a written complaint from a client stating that **PEI** and Mr. Langsam had made unsuitable investments and requested a monetary settlement of approximately \$64,500.00. **PEI** and Mr. Langsam entered into a settlement agreement with Mr. Perrier on April 7, 2011, wherein **PEI** and Mr. Langsam denied all allegations asserted by Mr. Perrier. In the settlement agreement Mr. Perrier agreed that he had no claims against Mr. Langsam. In order to settle the dispute, **PEI** paid Mr. Perrier a total of \$25,000 and Mr. Langsam was not responsible for paying any amount to Mr. Perrier.

Both of these items are fully disclosed on Mr. Langsam's Form U-4, which can be found at [www.finra.org/brokercheck](http://www.finra.org/brokercheck). If you do not have access to the internet, you can call our office at (800) 445-6050 to request a copy of Mr. Langsam's Form U-4.

## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Mr. Langsam began his career in financial services in 1978 providing personal financial planning, corporate benefit planning services, and estate tax planning, which include the sale of life and health insurance products as well as annuity products. Mr. Langsam devotes approximately 15% of his time providing these financial services, as an independent insurance broker. Mr. Langsam also is the principal owner of Diversified Financial Management, Inc., which is a dormant non-active company.



## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Description of Code of Ethics**

Federal and state regulations impose a fiduciary duty on all investment advisers to act in the best interest of its clients. **PEI**'s clients therefore entrust us to use the highest standards of integrity when dealing with their assets and making investments that impact their financial future. Our fiduciary duty compels all employees to act with integrity in all of our dealings.

Because our investment professionals may transact in the same securities for their personal accounts as they may buy or sell for client accounts, it is important to mitigate potential conflicts of interest. To that end, we have adopted personal securities transaction policies in the form of a Code of Ethics ("Code"), which all of our associated persons must follow. This Code provides such personnel with guidance in their ethical obligations regarding their personal securities transactions and fiduciary duties formulating the basis of all of our client dealings. Specifically, the Code requires certain personnel to report personal trades and holdings and prohibits or requires pre-clearance for certain trades in certain circumstances. The Code also contains procedures for reporting violations and enforcement. The Code is reviewed and distributed to our associated persons annually. **PEI** will provide a copy of the Code to any client or prospective client upon written request.

**PEI** obtains information from a wide variety of publicly available resources. **PEI** and our personnel do not have, nor claim to have, insider or private knowledge. To ensure insider trading does not take place and to address the conflict of interest regarding obtaining confidential information, **PEI** has adopted a firm wide policy statement outlining insider-trading compliance by the firm, our associated persons and other employees. This statement has been distributed to all our associated persons and other employees and has been signed and dated by each such person.

### **B. Participation or Interest in Client Transactions**

An IAR may also be the registered representative of a broker-dealer (RR). In that capacity, the RR/IAR receives compensation as a result of the client's participation in affected investment programs. The amount of this compensation may be more or less than what the RR/IAR would receive if the client participated in other programs or paid separately for investment advice, brokerage, and other client services. Therefore, the RR/IAR may have a financial incentive to recommend one of these proprietary programs over other programs and service.

Because the Code would permit our associated persons to invest in the same securities as clients, there is a possibility that an associated person could benefit from market activity by a client in a security held by that person. Employee trading is continually monitored under the Code, with an eye to reasonably prevent conflicts of interest between **PEI** and our clients.

**PEI** does not affect any principal or agency cross securities transactions for client accounts, nor does it affect cross-trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in

which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Should we ever decide to affect principal trades or cross-trades in client accounts, we will comply with the all applicable state and federal requirements.

### **C. Personal Trading**

**PEI** and our officers, directors, agents, and employees (“Access Persons”) may invest personally in securities of the same classes that are purchased for clients and may own securities of the issuers whose securities are subsequently purchased for clients. Our Code contains certain requirements designed to address the conflicts that arise with regard to personal trading by **PEI** or our Access Persons. For example, other than certain exceptions outlined below, our Access Person must obtain pre clearance for transactions in personal accounts. The exceptions include the purchase or sell of: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds; and (v) securities transactions that are aggregated and traded with client accounts with all participants receiving the average execution price.

## **ITEM 12: BROKERAGE PRACTICES**

### **A. Selection Criteria**

For clients’ accounts held at Schwab Institutional (“Schwab”), Schwab generally does not charge separate fees for custody but is otherwise compensated by clients through transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts. Therefore, **PEI** will place such clients’ trades with Schwab Institutional so as to avoid having clients’ incur the custody and/or incremental brokerage costs that would result from using a different broker-dealer. Schwab Institutional’s execution quality may be different than other broker-dealers. The factors considered by us in recommending Schwab as the broker custodian for client accounts are based on, but not limited to the reasonableness of transaction fees charged by Schwab, product availability, quality of executions, research and other services available to both the client and **PEI**. Please refer to Item 12B and item 14B below for a detailed description of the services and benefits received by us.

If a client’s account is held at another custodian or broker/dealer clearing firm, **PEI** may be required by such firm to place transactions through the custodian’s or clearing firm’s affiliated broker-dealers. From time to time, this may include various broker-dealers through which some **PEI** adviser representatives also serve as registered representatives. Due to this requirement **PEI** is not able to select broker-dealers outside of those who clear through these affiliated custodians. As a result, a client’s account may pay higher execution and clearance costs and receive less favorable net prices on transactions for their account than could otherwise be received at other broker-dealers. Clients should also understand that conflicts may arise between the client’s interest in receiving best execution with respect to transactions effected for the account and **PEI**’s interest in receiving future client referrals from the broker-dealers that clear through other custodians. To address these conflicts, we perform periodic reviews of the execution quality to help ensure that clients are receiving the best overall deal on transactions. Please refer to Item 12.B below.

If a client's appointed custodian does not require **PEI** to place transactions through broker-dealers that clear through such custodian, then we have discretion to place buy and sell orders with or through brokers or dealers as we may deem appropriate. When this is the case, it is the policy and practice of **PEI** to strive for the best price and execution that are competitive in relation to the value of the transaction. In selecting a broker-dealer or other intermediary, we will consider such factors as in its good faith judgment deems reasonable under the circumstances, including the quality of research products and services made available to it (even if such research services are not for the exclusive benefit of a client). Clients may pay a commission on transactions in excess of the amount of commission another broker-dealer may charge in recognition of certain brokerage and research services provided to **PEI**, as permitted under Section 28(e) of the Securities Exchange Act and the regulations promulgated thereunder.

**PEI** generally recommends Schwab Institutional as the custodian for all assets held in **PEI** asset management program accounts, although other clearing firms or custodian brokers may be appointed by the client. Due to this recommendation, however, it is important for clients to consider and compare the significant differences between having assets held at Schwab Institutional or another custodian broker or bank prior to opening an account with **PEI**. Some of these differences

include, but are not limited to the execution and clearance costs, technology services, security, statement reporting, and confirmation processing.

**PEI** may appoint a broker-dealer as the sole and exclusive broker-dealer with respect to processing securities transactions for client accounts. While we make every attempt to obtain the best execution possible, there is no assurance that it will be obtained. Clients should consider whether or not the appointment of a broker-dealer by **PEI** as the sole broker-dealer may or may not result in certain costs or disadvantages to the client as a result of possibly less favorable executions. We will not seek better execution services or prices from other broker-dealers and, as a result, a client may pay higher execution and clearance costs and receive less favorable net prices on transactions for their account than would otherwise be the case. Clients should understand that conflicts may arise between a client's interest in receiving best execution with respect to transactions effected for the account and **PEI's** interest in receiving future client referrals from the specific broker-dealer. Accordingly, clients should consider whether execution, clearance and settlement capabilities, and whatever amount is regarded as allocable to custodian fees, if applicable, will be comparable to those otherwise obtainable.

### **B. Best Execution**

For client accounts that **PEI** has brokerage selection discretion, it is our policy and practice to strive for the best price and execution that are competitive in relation to the value of the transaction ("best execution"). In order to achieve best execution, we will use our best judgment to choose the broker-dealer most capable of providing the brokerage services necessary to obtain the best overall qualitative execution. Although we will strive to achieve the best execution possible for client securities transactions, this does not require us to solicit competitive bids and we do not have an obligation to seek the lowest available commission cost. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's

services, including among other things, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while **PEI** will seek competitive rates, we may not necessarily obtain the lowest possible commission rates for client transactions. We are not required to negotiate "execution only" commission rates, thus the client may be deemed to be paying for research and related services (*i.e.*, "soft dollars") provided by the broker which are included in the commission rate. Please refer to Item 12.C below for detailed information on soft dollar arrangements.

To help ensure that clients are receiving the overall best qualitative execution, we periodically (and no less often than annually) evaluate the trading process and brokers utilized. Our evaluation will consider the full range of brokerage services offered by the brokers, which may include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

### C. Soft Dollar Considerations

Subject to the policy of seeking best execution for transactions, and also subject to the criteria of Section 28(e) of the Securities and Exchange Act of 1934 ("Section 28(e)"), **PEI** may, in circumstances in which execution is comparable, place trades with a broker, which is providing brokerage and research services to us ("Research Broker"). Brokerage and research services provided by Research Brokers, may include, among other things, effecting securities transactions and performing services incidental thereto (such as clearance, settlement and custody) and providing information regarding the economy, industries, sectors of securities, individual companies, statistical information, taxation, political developments, legal developments, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis and performance analysis. Such research services can be received in the form of written reports, telephone conversations, personal meetings with security analysts and/or individual company management, and attending conferences. The research services provided by a Research Broker may be proprietary (*i.e.* research produced by the broker's staff) and/or third party (*i.e.* originates from a party independent from the broker providing the execution services).

In selecting a Research Broker, we will make a good faith determination that the amount of the commission charged is reasonable in relation to the value of the brokerage and research services received, viewed in terms of either the specific transactions or our overall responsibility to the accounts for which we exercise investment discretion.

Subject to Section 28(e), **PEI** may pay a Research Broker a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage and/or research services provided by the broker. This practice is commonly referred to as "soft dollars". We believe it is imperative to our investment decision making process to have access to this type of research and brokerage.

Research services provided by Research Brokers may be used by **PEI** in servicing any or all of our clients, and may be used in connection with clients other than those making the payment of commissions to a Research Broker, as permitted by Section 28(e). In other words, there may be certain client accounts that benefit from the research services, which did not make the payment of commissions to the Research Broker providing the services. The receipt of brokerage and research

services from any broker executing transactions for our clients will not result in a reduction of our customary and normal research activities, and the value of such information is, in our view, indeterminable. Nevertheless, the receipt of such research may be deemed to be the receipt of an economic benefit by **PEI**, and although customary, may be deemed to create a conflict of interest between us and our clients. Therefore, we feel it is important for clients to be aware of the issues surrounding “soft dollars”.

**PEI** also has access to proprietary research from Schwab due to the fact that some of our clients custody their account assets at Schwab. In addition, we receive certain other indirect benefits from Schwab due to this arrangement, which are outlined in Item 14B below and may be deemed to fall outside the safe harbor of Section 28(e). To address this conflict of interest, we perform periodic reviews (as outlined in Item 12.B above) of the quality of execution and services provided by Schwab to help ensure that clients are receiving the best overall deal.

Currently, **PEI** does not have any other soft dollar arrangements in place.

#### **D. Trade Order Aggregation**

From time to time, **PEI** may determine that the purchase or sale of a particular security is appropriate for multiple advisory client accounts, based on a variety of reasons. When this happens, we may determine that it is in these clients’ best interest to attempt to execute the trade orders as one or more block trades (*i.e.*, aggregate the individual trade for each account into one or more trade orders.). We also may include proprietary accounts in the block trades. These circumstances may, in turn, give rise to actual or potential conflicts of interest among the accounts for whom the security purchase or sale is appropriate, and among the subset of those accounts actually participating in a block trade, especially if the block trade order results in a partial fill. In order to address these conflicts, we have adopted certain policies and procedures that we follow when aggregating trades in an effort to provide an objective and equitable method of trade allocation so that all participating accounts are treated fairly. The basic objectives of these policies and procedures are as follows:

- (a) **PEI** will only aggregate trades when it believes that such aggregations are consistent with its duty to seek best execution for its clients;
- (b) **PEI** will strive to ensure that no participating account is favored over any other account; and
- (c) Each account that participates in an aggregated transaction shall participate at the average of the executed share price for that security.

If block trade orders cannot be fully executed under prevailing market conditions, we may allocate the shares traded among participating accounts and each similar order in a manner which we consider equitable, taking into consideration, among other things, the size of the orders placed, the relative cash positions of each account, the investment objectives of the accounts, and liquidity of the security.

#### **E. Handling Trade Errors**

There may be times when **PEI** inadvertently makes an error when placing a client’s trade for execution (e.g. places a trade for the incorrect security or number of shares). In resolving any trading error, our policy is that our clients’ interests always come first. Normally, this means placing the client in the same position that it would have been in had the error not occurred.

Generally, any losses incurred in a client's account due to a **PEI** trading error will be our responsibility and the client's account will be reimbursed. Any gains from a **PEI** trade error will either remain in the client's account if the account was affected, or if the error was discovered prior to settlement and transferred to a **PEI** trade error account held at the custodian, then such gain will be sent to a charity of either **PEI's** or the custodian's choice.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **A. Regular Reviews**

The **PEI** IAR reviews quarterly account statements, and based on market conditions may review the accounts more frequently. The portfolio manager responsible for the asset management program reviews each account at least quarterly, but usually reviews each account throughout the month. **PEI** compliance procedures require that all accounts be reviewed on at least a quarterly basis, if not more frequently based upon market conditions.

Our performance information is reviewed for accuracy by our Operations personnel. The review process consists of pricing all positions, reconciling account positions, automatically updating performance records and comparing each account's performance for deviations from other accounts. Performance information is calculated on a uniform and consistent basis using a time-weighted rate of return prepared by third party service providers.

### **B. Other Reviews and Triggering Factors**

In addition to the periodic reviews described above, reviews may be triggered by changes in an account holder's personal, tax or financial status. Other events that may trigger a review of an account are material changes in market conditions as well as macroeconomic and company-specific events. Clients are encouraged to notify us and our advisory representatives of any changes in his/her personal financial situation that might affect his/her investment needs, objectives, or time horizon.

### **C. Regular Reports**

We provide clients with detailed quarterly performance reports describing account performance and positions, as well as an invoice detailing all fees and charges. In addition to the quarterly performance reports, the client's custodian will send trade confirmations and monthly account statements to clients showing all transactions, positions, and all deposits and withdrawals of principal and income. Clients are encouraged to review their account statements for accuracy and compare them to the reports received by **PEI**.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

### **A. Economic Benefits Received**

**PEI** is provided with an economic benefit through its receipt of soft dollars in accordance with Section 28(e) of the Securities Exchange Act of 1934. We may enter into these "soft dollar" arrangements whereby brokerage transactions are directed to certain broker-dealers in return for investment research products and/or services which assist us in our investment decision-making process. The receipt of such services may be perceived to serve as an economic benefit to us, and although customary, these arrangements give rise to potential conflicts of interest, including the

incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client's interest in receiving most favorable execution. Please refer to Items 10 and 12 which more fully describes these benefits and how we address the conflicts of interest.

As outlined in Item 12 above, **PEI** may recommend that clients establish brokerage accounts with Schwab Institutional, to maintain custody of clients' assets and to effect trades for their accounts. **PEI** and Schwab are separate, unaffiliated entities. Schwab provides us with access to its institutional trading and operations services typically not available to Schwab's retail customers. These services generally are available to independent investment advisers at no charge to them so long as a minimum of at least \$10 million of the adviser's clients' account assets are maintained at Schwab. Schwab services include brokerage, custody, research, access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. Schwab also makes available to us other products and services that also benefit us. Some of these other products and services assist us in managing and administering our clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our management fees from our clients' accounts, and assist with back-office support, record keeping and client reporting. Many of these services generally may be used to service all or a substantial number of our client accounts, including accounts not maintained at Schwab. Since Schwab provides various products, services and other benefits to **PEI** at no cost or a reduced cost based upon our commitment that our clients will place or maintain a specified dollar amount of assets in account with Schwab within a specified time, we may be influenced by this commitment, which creates a conflict of interest between us and the clients' whose assets are held at Schwab.

The products and services or other benefits provided by Schwab include payments offsetting the fees otherwise payable by **PEI** for the following products and services: (1) Software which, among other things provides accounting and performance reporting, including an associated one year maintenance fee; and (2) software which automates and monitors office activities, including tracking client correspondence and documents. In addition, some of the other products, services and benefits provided by Schwab Institutional benefit **PEI** and may not benefit our clients' accounts. These benefits may include educational events organized and/or sponsored by Schwab and occasional business entertainment of our IARs which may include meals and attendance at sporting events and concerts. However, our recommendation that a client place assets in Schwab's custody will NOT be based in whole or in part on benefits received by us, but WILL be based solely on the nature, cost or quality of custody and execution services provided by Schwab. In addition, Client's should understand that the products, services and benefits received by client and/or **PEI** that are outlined above, are considered to be "soft dollars" but do not fall within the safe harbor of Section 28(e) described under the "Soft Dollars Considerations" section above.

#### **B. Compensation for Client Referrals**

**PEI** has entered into and in the future may enter into contractual agreements ("solicitation agreements") with individuals and organizations, some of whom may be affiliated or unaffiliated with us, that solicit clients on our behalf. All such agreements are made in writing and comply with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940 (the "Act"). While the specific terms of each solicitation agreement may differ, generally, a solicitor's compensation is

based upon our engagement of new clients and the retention of those clients and is calculated using a varying percentage interest in the fees paid to us by such clients. In all solicitation agreements, each solicitor must represent that they have not been: 1) subject to an order of the Securities and Exchange Commission issued under Section 203(f) of the Act, 2) convicted within the last ten years of any felony or misdemeanor involving conduct described in Section 203 (e)(2)(A) – (D) of the Act, 3) found by the Commission to have engaged, or convicted of engaging, in any of the conduct specified in paragraphs (1), (5) or (6) of Section 203(e) of the Act; nor 4) subject to an order, judgment or decree described in Section 203(e)(4) of the Act. Each solicitor must agree to advise **PEI** immediately of any change in such representations. In addition, the solicitor is to provide the prospective client with a copy of our Brochure (Form ADV Part 2A), in addition to a document disclosing that the solicitor is receiving some form of payment for making the referral. The solicitor is required to obtain the client's signature acknowledging receipt of our Brochure and the written document. Note that in a majority of the states, a solicitor is also required to be qualified and registered as an investment adviser representative.

## **ITEM 15: CUSTODY**

Pursuant to certain state and federal regulations, **PEI** is deemed to have custody of client funds solely because we have the authority and ability to debit its fees directly from clients' accounts. To mitigate any potential conflicts of interests, all our client account assets will be maintained with an independent qualified custodian.

Notably, in most cases a client's broker-dealer also may act as the custodian of the client's assets for little or no extra cost. Clients should be aware, however, of the differences between having their assets held at a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology.

**PEI** may only implement its investment management recommendations after the client has arranged for and furnished us with all information and authorization regarding its accounts held at the designated qualified custodian.

Clients will receive statements on at least a quarterly basis directly from the qualified custodian that holds and maintains their assets. Clients are urged to carefully review all custodial statements and compare them to the statements provided by **PEI**. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please refer to Item 12 for additional important disclosure information relating to our practices and relationships with custodians.

## **ITEM 16: INVESTMENT DISCRETION**

### **A. Discretionary Authority; Limitations**

In signing the Agreement, the client grants **PEI** complete and unlimited discretionary authority (i.e. give **PEI** the ability to act on behalf of the client) with respect to : (1) which securities to be bought and sold for the account (which include but are not limited to common stocks, preferred stocks, bonds, options, mutual funds, and exchange traded funds), (2) the total amount of such purchases



and sales, (3) the broker-dealer through which transactions will be executed, (4) whether a client's transactions should be combined with those of other clients and traded as a "block", and (5) in some cases the commission rates paid to effect the transactions. However, our authority may be subject to conditions imposed by the client, examples of which may include where the client restricts or prohibits transactions in securities of a specific company, mutual fund or industry or the client directs us to effect transactions through a specific broker-dealer.

**B. Limited Power of Attorney**

Unless clients specifically request in writing that we manage all or part of their account on a non-discretionary basis, by signing our written Agreement, clients authorize us to exercise full discretionary authority with respect to all investment transactions involving the client's account. Pursuant to such agreement, **PEI** is designated as the client's attorney-in-fact with discretionary authority to effect investment transactions in the client's account which authorizes us to give instructions to third parties in furtherance of such authority.

**ITEM 17: VOTING CLIENT SECURITIES**

**A. Proxy Voting**

Each client retains the right by the Agreement, to vote all proxies that are solicited for securities held in the account. **PEI** and the RR/IAR are expressly precluded from voting proxies for securities held in a client's account, and will not take any action or render any advice with respect to the voting of proxies, unless the account is an ERISA account and such authority has not been delegated to another named fiduciary in the plan's written documents. Proxies issued on securities held by a registered investment company (i.e. mutual fund) are generally voted by the investment adviser that manages the assets of the mutual fund.

**B. Class Action Filings**

A securities "class action" lawsuit is a civil suit brought by one or more individuals ("Plaintiffs") on behalf of themselves and others who have the same grievance against the issuer of a certain security.

When a class action is filed, a written notice of filing and/or settlement is prepared (the "Notice"), which outlines the reasons for the lawsuit, the parameters for qualification as a member of the class and certain legal rights that need to be considered before becoming a member of the class (i.e. participating in the settlement). In addition, the Notice will contain instructions issued by the court to broker-dealers and/or other nominees (e.g. custodians) who receive the Notice and who hold the security on behalf of the owner/beneficiary, to either (1) provide the Claims Administrator (usually the attorney for the Plaintiffs) with the name and address of each such owner/beneficiary so the Claims Administrator can send the Notice directly to such owner/beneficiary, or (2) request additional copies of the Notice be sent directly to the owner/beneficiary.

In some cases, in addition to the owner/beneficiary, **PEI** may also receive notification of a class action. Since, as described above, the broker/dealer, nominee or Claims Administrator is responsible for sending the Notice to the owner/beneficiary of the security, and we do not hold securities on behalf of our clients, we do not send any additional notification to our clients.

Because each class action involves certain legal rights that must be considered by the owner/beneficiary of the security before becoming a member of the class, **PEI** cannot instruct, or give advice to our clients on whether or not to participate as a member of the class and will not automatically file claims on the client's behalf.

## **ITEM 18: FINANCIAL INFORMATION**

**PEI** does not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. We do not have any financial commitments that impair our ability to meet contractual and fiduciary obligations to our clients, and have not been the subject of a bankruptcy proceeding.

## **ITEM 19: REQUIREMENT FOR STATE-REGISTERED ADVISERS**

### **A. Principal Executive Officers**

Robert Langsam is the owner of **PEI** and serves as the President and Chief Compliance Officer. Detailed information regarding Mr. Langsam's formal education and business background is outlined in his ADV Part 2B. This document is provided to new clients, can be obtained from us upon request and can also be viewed on the SEC's public website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **B. Outside Business Activity**

**PEI** and our associated persons do not have any other outside business activities other than what is listed in Item 10 above.

### **C. Performance-based Fees**

**PEI** does not charge performance based fees.

### **D. Disciplinary or Legal Events**

**PEI** and our associated persons do not have any disciplinary or legal events to disclose other than what is outlined in Item 9 above.

### **E. Relationship with Issuer of Securities**

**PEI** and our associated person do not have any financial industry affiliations or relationships with any issuer of securities.

**BROCHURE SUPPLEMENT**  
(Part 2B of Form ADV)

April 26, 2011

**Robert L. Langsam**

**Private Equity Investments, Inc.**

3419 Via Lido, #351  
Newport Beach, CA 92663  
Toll Free (800) 455-6050  
Telephone (949) 723-0902  
Fax (949) 209-1970

**This brochure supplement provides information about Robert L. Langsam that supplements the Private Equity Investment, Inc.'s brochure. You should have received a copy of that brochure. Please contact our Chief Compliance Officer at 800-455-6050 if you did not receive Private Equity Investment, Inc.'s brochure or if you have any questions about the contents of this supplement. Thank you.**

**Additional information about Robert L. Langsam is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## ITEM 1: COVER PAGE

Please refer to previous page.

## ITEM 2: EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Robert L. Langsam**

**Year of birth: 1945**

### **Educational Background:**

Pace University, New York – BBA in Marketing (1969)

Adelphi University, New York – MBA in Finance (1972)

St. John's University – New York – MBA in Taxation (1975)

### **Business Background:**

Private Equity Investments, Inc., President and Chief Compliance Officer (October 2002 – Present)

Diversified Financial Management, Inc., Owner (May 2005 – Present)

B.B. Graham & Co., Registered Representative (October 2010 – March 2011)

B.B. Graham & Co., Registered Representative (September 2006 – January 2009)

Nations Financial Group, Inc., Registered Principal (August 2003 – September 2006)

Mr. Langsam is the founder of Private Equity Investments, Inc. (“**PEI**”) and Portfolio Manager for the Defensive Growth Portfolio, the Capital Growth & Income Portfolio, the Strategic Asset Allocation Program, the Options Income for Low Cost Basis Stock Portfolio, the Speculative Growth Portfolio and the Fixed Income Securities Portfolio. Mr. Langsam has accumulated a deep wealth of expertise in trading equities and derivatives, portfolio management and supervisory experience. He began his career in financial services in 1978 providing personal financial planning, corporate benefit planning services, and estate tax planning, which include the sale of life and health insurance products as well as annuity products. Mr. Langsam presently holds a license for General Securities (Series 7), Investment Adviser Representative (Series 65), and Registered Securities Principal (Series 24). Please see Item 4 below for information on Mr. Langsam's outside business activities.

## ITEM 3: DISCIPLINARY INFORMATION

**PEI** is required to disclose all material facts regarding any legal or disciplinary event that would be material to your evaluation of each investment person providing advice to you. While **PEI** and Mr. Langsam do not consider the following information to be material legal or disciplinary events, it is being provided nonetheless in the spirit of full disclosure.

1. In April 2007 Mr. Langsam and his prior employer B.B. Graham & Co., a registered broker-dealer, entered into a Letter of Consent with the State of Alabama and B.B. Graham & Co. paid a fine in the amount of \$1050.00 because the firm was not properly registered in the State of Alabama prior to executing trades in client accounts. Mr. Langsam was not required to participate in the payment of the fine.
2. In January 2011, **PEI** and Mr. Langsam received a written complaint from a client stating that **PEI** and Mr. Langsam had made unsuitable investments and requested a monetary settlement of approximately \$64,500.00. **PEI** and Mr. Langsam entered into a settlement agreement with Mr. Perrier on April 7, 2011, wherein **PEI** and Mr. Langsam denied all allegations asserted by Mr. Perrier. In the settlement agreement Mr. Perrier agreed that he had no claims against Mr. Langsam. In order to settle the dispute, **PEI** paid Mr. Perrier a total of \$25,000 and Mr. Langsam was not responsible for paying any amount to Mr. Perrier.

Both of these items are fully disclosed on Mr. Langsam's Form U-4, which can be found at [www.finra.org/brokercheck](http://www.finra.org/brokercheck). If you do not have access to the internet, you can call our office at (800) 445-6050 to request a copy of Mr. Langsam's Form U-4.

#### **ITEM 4: OTHER BUSINESS ACTIVITIES**

Mr. Langsam began his career in financial services in 1978 providing personal financial planning, corporate benefit planning services, and estate tax planning, which include the sale of life and health insurance products as well as annuity products. Mr. Langsam devotes approximately 15% of his time providing these financial services, as an independent insurance broker. Mr. Langsam also is the principal owner of Diversified Financial Management, Inc., which is a dormant non-active company.

Please see Item 5 below for important information relating to Mr. Langsam's receipt of commissions and other compensation.

#### **ITEM 5: ADDITIONAL COMPENSATION**

Mr. Langsam may receive commissions for the sale of insurance products purchased for a client's account. In addition, as the principal owner of Private Equity Investments, Inc., Mr. Langsam shares in the profits and losses of the firm.

#### **ITEM 6: SUPERVISION**

Mr. Langsam is the President and Chief Compliance Officer of Private Equity Investments, Inc. As such, Mr. Langsam is responsible for all advice provided to clients. Mr. Langsam may be contacted at (800) 455-6050 or [rlangsam@privateequityinvestments.net](mailto:rlangsam@privateequityinvestments.net).

## **ITEM 7      REQUIREMENTS FOR STATE REGISTERED ADVISERS**

### **A. ADDITIONAL DISCIPLINARY INFORMATION**

Mr. Langsam has no disciplinary or legal information to disclose other than what is in Item 3 above.

### **B. BANKRUPTCY INFORMATION**

Mr. Langsam has not been the subject of any bankruptcy proceedings.