

# Disclosure Brochure

March 2, 2011

## **Goldstone Portfolios Incorporated**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Goldstone Portfolios Incorporated (hereinafter "Goldstone Portfolios" or "the firm"). Inquiries regarding the firm and/or this brochure's contents should be directed to Eric J. Goldstone at (845) 698-1806. Information contained herein has neither been approved nor verified by the United States Securities and Exchange Commission or by any state securities authority. Further information about Goldstone Portfolios Incorporated is available at the SEC's website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Goldstone Portfolios Incorporated is an SEC registered investment adviser. Registration does not denote an adviser's expertise or training.

## Item 2. Material Changes

This section of the brochure discusses only the material changes that have occurred since Goldstone Portfolios's last annual update dated February 16, 2010. Goldstone Portfolios does not have any material changes to disclose in response to this Item.

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### Supervised Person Disclosure Supplement

## Item 4. Advisory Business

Goldstone Portfolios has been in business as a registered investment adviser since April 8, 1993. Initially operated as a sole proprietorship, the business was incorporated under the laws of New York State in the following year. Goldstone Portfolios had \$40,018,000 of assets under management as of February 28, 2011, of which \$37,827,000 was managed on a discretionary basis and \$2,191,000 was managed on a non-discretionary basis. The firm holds itself out solely as a provider of investment management services.

Eric J. Goldstone is the principal shareowner of the firm.

Prior to engaging the firm, clients are required to enter into one or more written agreements setting forth the terms and conditions under which services are to be rendered (collectively the “*Agreements*”). Neither Goldstone Portfolios nor clients may assign the *Agreements* without written consent of the other party. (Changes to Goldstone Portfolios’ business structure resulting in no change of firm control or management do not constitute assignments.)

This disclosure brochure seeks to accurately describe the business of Goldstone Portfolios Incorporated. Certain sections of the document reference the activities of *Supervised Persons*. *Supervised Persons* are those who are subject to Goldstone Portfolios’ supervision or control and who are authorized to provide investment advice on the firm’s behalf.

### Investment Management Services

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Goldstone Portfolios generally provides the aforesaid services on a discretionary basis, meaning that the firm accepts responsibility for choosing the securities that it believes will help clients to meet their objectives with the appropriate amount of risk. Discretionary authority facilitates the firm acting on the client’s behalf without needing to seek specific permission to buy or sell a particular security. In limited instances, the firm may agree to provide investment management services on a non-discretionary basis. Under non-discretionary arrangements, Goldstone Portfolios will offer investment guidance, but is not authorized to buy or sell securities for the client’s account without prior approval. Additionally, clients may from time to time impose—and the firm will abide by—reasonable restrictions on the management of their accounts (e.g. requiring avoidance of certain types of investments or allocating a portion of the portfolio to “socially responsible” funds).

Clients’ managed accounts are typically allocated by the firm among equities (stocks), fixed income securities, and exchange traded funds (“ETFs”). Occasionally, mutual funds, options contracts, as well as securities components of variable annuities and variable life insurance contracts are also utilized—all in accordance with respective clients’ investment objectives. When appropriate and desirable, Goldstone Portfolios will also research and offer advice pertaining to other types of investments held in client portfolios.

The firm is sometimes called upon to render investment management services to clients relative to their variable life/annuity product holdings, the self-directed segments of their individual employer-sponsored retirement plans, their education savings accounts ("529 plans"), and/or other savings and investment vehicles. Such assets are often held in accounts not located at the client's primary custodian. In these instances, Goldstone Portfolios will either direct or recommend the allocation of said assets among the specific investment options made available through the respective plan, product, or offering.

In all cases, Goldstone Portfolios seeks to tailor its advisory services to the individual client, endeavoring to properly match asset allocation decisions with each client's respective longer-term investment objectives and risk tolerance. While certain common positions are frequently held across many of the firm's client portfolios, each client's specific circumstances (appropriate asset allocation, tax status, suitability, etc.) are always taken into consideration prior to purchasing or selling securities for their specific account. Accordingly, clients are urged to promptly notify Goldstone Portfolios regarding relevant changes in their financial situations or investment objectives, and to alter or impose additional restrictions upon the firm's management services.

### **Additions and Withdrawals to Accounts**

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The firm imposes no restrictions on the timing of client additions to or withdrawals from their accounts. Clients may freely add to or withdraw account assets (preferably upon advance notice to Goldstone Portfolios), subject to usual and customary securities settlement procedures that are out of the firm's control. Additions may be in the form of cash or as delivered securities. Goldstone Portfolios reserves the right to liquidate any transferred securities or to decline to accept particular securities into a client's account. The firm will discuss with clients the possible ramifications associated with transferring securities rather than cash such as transactions costs, mutual fund fees (i.e. contingent deferred sales charge) and/or taxes that may apply upon liquidation of said transferred securities.

Clients are advised that Goldstone Portfolios designs and manages portfolios intended to serve as long-term investment vehicles. Significant and/or unanticipated inflows or outflows to or from managed portfolios can either benefit or penalize near-term performance results, depending on the timing of said transactions and on concurrent market volatility.

## Item 5. Fees and Compensation

### Investment Management Fee

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Goldstone Portfolios provides investment management services for an annual fee. This fee is calculated as 1.25% of the market value of the client's total assets placed under the firm's management. Said annual fees are prorated and charged quarterly, in arrears. To smooth-out the potential impact of near-term market volatility on management fees, the firm computes and uses an average of each client's preceding four month end portfolio valuations as the basis for its quarterly assessments. Goldstone Portfolio's annual fee is exclusive of and in addition to brokerage commissions, transaction fees, and other related costs and expenses assessed by others that are generally incurred by the client.

The firm imposes a minimum annual fee of \$5,000 on each client relationship. In its sole discretion, the firm may negotiate to waive this minimum annual fee or to charge a lesser management fee based upon certain criteria (i.e. anticipated future account additions, existence of related accounts, account complexity, pre-existing client relationship, total dollar value of assets placed under managed, desirability of account retention, *pro bono* activities, etc.).

Goldstone Portfolios, in its sole discretion, may negotiate to waive its minimum annual fee or charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

### Fees Charged by Financial Institutions

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Goldstone Portfolios cannot act to implement investment management recommendations for clients until furnished with required information and authorizations regarding the clients' account(s) established with appropriate financial institutions. Financial institutions include, but are not limited to, either broker-dealers recommended by Goldstone Portfolios or directed by the client, trust companies, banks etc. (collectively referred to herein as "*Financial Institutions*"). In this regard, the firm will most often recommend that clients utilize the brokerage, clearing, and custodial services of Charles Schwab & Co., Inc. ("Schwab") for their respective investment management accounts." (See Item 12 below for the rationale behind this recommendation.)

Clients incur various charges imposed by *Financial Institutions*, taxing authorities, and other third parties. Typically, these may include such assessments as brokerage commissions and transaction fees, direct and indirect mutual fund or ETF fees as disclosed in these funds' prospectuses (e.g. internal fund management fees and expenses), deferred sales charges, odd-lot differentials, custodial fees, transfer taxes, wire and electronic fund transfer fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to Goldstone Portfolios' fee, and the firm receives no benefit from them.

## Goldstone Portfolios Incorporated Disclosure Brochure

While clients may elect to receive invoices for management fees directly from Goldstone Portfolios, *Agreements* executed with the firm as well as those signed with ancillary *Financial Institutions* authorize the firm to draw investment management fees for services rendered directly from the client's account. Any *Financial Institutions* recommended by the firm is required to send account statements to clients no less frequently than quarterly. These statements cite all amounts disbursed from the account, including any investment management fees that may have been remitted to Goldstone Portfolios.

### **Fees for Management During Partial Quarters of Service**

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Investment management fees are prorated for the initial quarter's service.

*Agreements* between Goldstone Portfolios and respective clients continue in effect until terminated by either party according to terms that are specified in the *Agreements*. Investment management fees are prorated through the date of termination, and any balances are charged or refunded to the client as appropriate. When assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets is not directly adjusted or prorated based on the number of days remaining in the quarter. Rather, the smoothed average market value method Goldstone Portfolios employs when calculating management fees (see discussion above) attenuates the impact of such interim additions and disbursements to or from the account.

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

Performance-based fees are those some advisers charge against capital gains or appreciation generated in client accounts. So-called “side-by-side” management relates to advisors who manage substantially different pools of assets (i.e. hedge funds along with mutual funds) and are compensated differently for their services to each. Such compensation structures may potentially introduce conflicts of interest or a perception thereof.

Goldstone Portfolios structures and manages individual long-term investment portfolios, against which performance-based compensation is deemed to be incongruous. As such, Goldstone Portfolios does not provide its services in return for performance-based fees. Neither does Goldstone Portfolios presently direct or manage any of the types of investment vehicles typically associated with side-by-side management and/or fees.

## Item 7. Types of Clients

Goldstone Portfolios provides services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Fee

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As a condition for starting and maintaining a client relationship, Goldstone Portfolios generally imposes a minimum annual fee of \$5,000. This minimum fee may have the effect of making Goldstone Portfolios' services impractical for certain clients, particularly those seeking to place amounts less than \$400,000 under management. The firm, in its sole discretion, may elect to waive this minimum annual fee based upon certain criteria (i.e. anticipated future account additions, existence of related accounts, account complexity, pre-existing client relationship, total dollar value of assets placed under managed, desirability of account retention, *pro bono* activities, etc.).

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

### Primary Methods of Analysis

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Goldstone Portfolio's methodology emphasizes attainment of each client's unique long-term investment objectives, rather than merely trying to "stay ahead of the market". Achieving this objective leads the firm to track a wide variety of cyclical and technical metrics; however, it is upon the firm's proprietary quantitative and fundamental analytics that Goldstone Portfolios primarily relies in structuring client portfolios.

*Cyclical analysis* seeks to assess market conditions from a macro (entire market/economy) or from a micro (security specific) level. The objective of most cyclical metrics is to identify recurrent patterns and/or trends in corporate earnings, interest rates, demographics, etc. and to subsequently capitalize on this knowledge. The dominant risk to relying solely on cyclical analysis is that historical patterns and trends may not continue into the future. What's more, even if a detected pattern does recur, there's no guarantee that one can accurately time the recurrence or its magnitude to thereby profit.

*Technical analysis* focuses on past market data (prices, trading volume, investor sentiment, etc.) in an effort to extrapolate future trends, rather than on economic or specific company data. Technical analysis often considers chart patterns and trends, paying relatively short shrift to earnings and other underlying economic or business related fundamentals. As with cyclical analysis, the primary risk in using technical analysis is that identification of historical trends does not assure their continuance into the future.

*Fundamental analysis* stresses financial and economic factors, seeking to determine when current market prices reflect undervaluation or overvaluation relative to established norms. *Quantitative analysis* makes extensive use of computers and econometric models in an effort to turbocharge the fundamental approach. Goldstone Portfolios favors these last two approaches over others. The firm pays great attention to businesses' financial condition and their ability to increase sales volumes and/or raise prices for the goods or services they provide. Also considered are the capabilities of management, earnings growth potential, new products and services, as well as companies' markets and position amongst their competitors. These data are brought together, modeled and analyzed by means of modern computer methods in an effort to determine optimal portfolio allocations and to select securities with which to build client portfolios.

The primary risks to using fundamental analysis and quantitative methods surround the sheer complexity of the data and the number of unknown variables that always exist and which defy forward-looking analysis. For instance, while the overall health and position of a company may be accurately assessed as being very good, unfavorable market conditions may nevertheless negatively impact the security's price.

Goldstone Portfolios long-term approach rests on a presumption that, over time, underlying value will be appropriately priced by the markets; but there can be no assurance given that this will indeed occur, that

other unexpected factors will not develop which undermine the original assessment, or that the initial analysis was right in the first place.

## Investment Strategy

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At the core of Goldstone Portfolios' investment strategy is a clear understanding of each respective clients' long-term financial objectives and risk tolerance. Accordingly, scheduled meetings, periodic phone conversations, and regular correspondence are sought with all Goldstone Portfolios' clients in an effort to better comprehend and to keep pace with the particular circumstances and aspirations from which their specific investment objectives derive. It is only after a client's long-term investment objectives and risk tolerance have been explored, defined, and documented, that the structuring of an appropriate portfolio begins.

Goldstone Portfolios provides each prospective client with an understanding of the firm's methodology and, together with the client, thereafter selects one of six prototype asset allocations that most closely fits the client's particular investment objectives and risk tolerance. From the client's perspective, this exercise helps establish a useful framework for assessing results over time and for better understanding the trade-offs between risk and return associated with the investment process. From Goldstone Portfolios' perspective, the exercise is also useful in that it supplies the broad asset allocation framework that will be used as a reference point in directing the client's discretionary accounts placed under management.

Whenever Goldstone Portfolios' quantitatively and fundamentally-derived analytical metrics reflect historical market undervaluation (i.e. a perceived "cheap" market), Goldstone Portfolios gravitates toward exchange-traded fund (ETF) investments. It is the firm's supposition that ETFs offer a low-cost and efficient way to gain broad diversification. The variety of available exchange-traded vehicles provides great flexibility in gaining rapid exposure to those market segments that Goldstone Portfolios' research underscores as being attractive. The firm also sees ETFs as a means of efficiently exiting a market segment as that segment's relative attractiveness wanes.

Conversely, when Goldstone Portfolios' analytical tools shift to an opposite extreme, reflecting markets that are historically overvalued (i.e. "expensive"), client portfolios are increasingly peppered with individual securities (as opposed to funds). The firm's approach starts with a core conviction that respective asset classes offer a measurable long-term average investment return. To Goldstone Portfolios' way of thinking, an extended period of outperformance (over and above the long-term average) implies a subsequent period of underperformance—a regression to the mean. In a market assessed to be overpriced, Goldstone Portfolios presumes that average securities will begin to yield below average results until equilibrium is again restored. Accordingly, in such an overvalued environment, Goldstone Portfolios seeks out not the broad diversification of funds, but rather, the unique characteristics of individual securities—special situations with potential to buck the anticipated negative trend.

When purchasing individual securities is the favored alternative, Goldstone Portfolios relies upon fundamental research to select candidates for purchase. Acquired positions are typically held until either the reasons for their original purchase no longer apply or because the firm's quantitative models call for a reduction in the overall asset class or market segment to which the particular security belongs. While common positions are frequently held across many of Goldstone Portfolios' client portfolios, each client's specific circumstances (appropriate asset allocation, tax status, suitability, etc.) are always reviewed prior to undertaking actions on that client's behalf.

### **Mutual Funds and Exchange-Traded Funds (ETFs)**

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An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are subject to risks stemming not only from the securities that comprise the fund's portfolio, but from the fund company's policies and financial standing as well. Fund shareholders also bear tax liability incurred from all positions held within the fund, as mutual funds and ETFs are required by law to distribute any net capital gains they capture internally from the sale of securities at a net profit. As such, mutual fund or ETF investors may find themselves faced with a substantial tax liability even though the fund shares have not moved significantly.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV. Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### **Options**

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Options allow investors to buy or sell a security at a contracted "strike" price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of

inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price.

### Market Risks

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The absolute profitability of a significant portion of Goldstone Portfolios' recommendations is substantially dependent upon the firm's principal, Eric J. Goldstone correctly assessing the future course of financial markets and that of the particular equities and fixed income securities selected for purchase or sale within the firm's clients' accounts. There can be no assurance that Mr. Goldstone will successfully predict those price movements in the future or that the firm's asset allocation models and investment approach will yield desirable outcomes.

### Management Through Similarly Managed Accounts

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Goldstone Portfolios generally manages portfolios by allocating each client's assets among various securities on a discretionary basis using one or more of its proprietary investment models (collectively referred to as "*investment strategy*"). In so doing, Goldstone Portfolios buys, sells, exchanges and/or transfers securities based upon the *investment strategy*.

In using its *investment strategy*, the firm complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. (Rule 3a-4 provides similarly managed accounts, such as those structured using the same particular model in Goldstone Portfolio's *investment strategy*, with a safe harbor from the definition of an investment company.)

Securities chosen in the process of employing the *investment strategy* are usually exchanged and/or transferred, but only after a client-level assessment of tax impact has been performed.

In rare instances, certain investment opportunities that become available to Goldstone Portfolios' clients may be limited. As further discussed in response to Item 12B (below), Goldstone Portfolios always seeks to allocate investment opportunities among its clients in a fair and equitable fashion.

### Use of Margin

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To the extent a client authorizes the use of margin borrowing, and margin is thereafter employed by Goldstone Portfolios in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to Goldstone Portfolios will not be increased as a result.

While the use of margin leverage can potentially improve returns, it also increases the potential for adverse impact to which a client's portfolio may be subject.

Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an

increase in the collateral that secures the client's obligations, and if the client failed to comply, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations instead. The timing of such forced liquidation could have extremely adverse consequences. In addition, the degree to which margin leverage is employed and the interest rates assessed against those borrowings by the lender will significantly impact on the client's profitability.

### **Risk of Loss**

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Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

Goldstone Portfolios is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Goldstone Portfolios does not have any reportable disclosures to this Item.

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

Goldstone Portfolios is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Goldstone Portfolios does not have any required disclosures to this Item.

## Item 11. Code of Ethics

Goldstone Portfolios and its *Supervised Persons* are permitted to buy or sell securities that it also recommends to clients consistent with the firm's policies and procedures.

Goldstone Portfolios has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Advisers Act, its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Goldstone Portfolios or any of its associated persons. The *Code of Ethics* also requires that certain of the firm's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Goldstone Portfolios' *Code of Ethics*, none of Goldstone Portfolios' *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Goldstone Portfolios' clients.

When Goldstone Portfolios is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Goldstone Portfolios is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (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; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Goldstone Portfolios to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed in Item 5 above, unless a client expresses a preference in employing services of a different brokerage house, clearing agent, or custodian, Goldstone Portfolios will generally recommend Charles Schwab and Co., Inc. ("*Schwab*").

Factors the firm considers in recommending *Schwab* or any broker-dealer to clients include the particular broker-dealer's financial strength, reputation, execution, pricing, research, and efficient service. *Schwab* enables Goldstone Portfolios to obtain for client accounts the shares of many mutual funds and other securities with nominal or, in some cases, no transaction fees. This factor notwithstanding, Goldstone Portfolios seeks competitive commission rates, but will not necessarily obtain the lowest possible commission rates for client transactions. The commissions and/or transaction fees charged by *Schwab* may be higher or lower than those charged by other *Financial Institutions* on any given transaction.

Commissions paid to broker-dealers by Goldstone Portfolios' clients comply with Goldstone Portfolios' duty to obtain "best execution." Clients may pay commissions that are marginally higher than another qualified *Financial Institution* might charge to effect the same transaction if Goldstone Portfolios judges said commissions to be reasonable relative to the overall value of services, research, and technological efficiencies that *Schwab* provides. In seeking best execution, low commission rates are not to only determining factor. The firm takes into account the full range of a *Financial Institution's* services, including among others, the value of investment tools and research provided, execution capability, commission rates, and responsiveness.

Transactions may be cleared through other *Financial Institutions* with whom Goldstone Portfolios and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. Goldstone Portfolios periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Goldstone Portfolios in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Goldstone Portfolios will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Goldstone Portfolios (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Goldstone Portfolios may decline a client's request to direct brokerage if, in Goldstone Portfolios' sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Goldstone Portfolios decides to purchase or sell the same securities for several clients at approximately the same time. Goldstone

Portfolios may (but is not obligated to) combine or “batch” such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Goldstone Portfolios’ clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Goldstone Portfolios’ clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Goldstone Portfolios determines to aggregate client orders for the purchase or sale of securities, including securities in which Goldstone Portfolios’ *Supervised Persons* may invest, Goldstone Portfolios generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Goldstone Portfolios does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Goldstone Portfolios determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account’s assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Goldstone Portfolios may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Goldstone Portfolios in its investment decision-making process. Such research generally will be used to service all of Goldstone Portfolios’ clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client’s portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Goldstone Portfolios does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

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Goldstone Portfolios may receive from *Schwab*, without cost to Goldstone Portfolios, computer software and related systems support, which allow Goldstone Portfolios to better monitor client accounts

maintained at *Schwab*. Goldstone Portfolios may receive the software and related support without cost because Goldstone Portfolios renders investment management services to clients that maintain assets at *Schwab*. The software and related systems support may benefit Goldstone Portfolios, but not its clients directly. In fulfilling its duties to its clients, Goldstone Portfolios endeavors at all times to put the interests of its clients first. Clients should be aware; however, that Goldstone Portfolios' receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Goldstone Portfolios' choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Goldstone Portfolios may receive the following benefits from Schwab through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Schwab Institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### Item 13. Review of Accounts

Goldstone Portfolios reviews client accounts daily to assure compliance with previously established investment guidelines. Such reviews are conducted by the President and Chief Investment Officer, Eric J. Goldstone. An additional level of review is triggered upon Goldstone Portfolios' notification of any material change in a client's state of affairs that may alter the client's capacity to assume investment risk. Goldstone Portfolios contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Goldstone Portfolios provides investment advisory services will also receive a report from Goldstone Portfolios that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Goldstone Portfolios.

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

Goldstone Portfolios is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, Goldstone Portfolios is required to disclose any direct or indirect compensation that it provides for client referrals. Goldstone Portfolios does not have any required disclosures to this Item.

### Item 15. Custody

Goldstone Portfolios' *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Goldstone Portfolios through such *Financial Institution* to debit the client's account for the amount of Goldstone Portfolios' investment management fee and to directly remit that management fee to Goldstone Portfolios in accordance with applicable custody rules.

The *Financial Institutions* recommended by Goldstone Portfolios have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Goldstone Portfolios. In addition, as discussed in Item 13, Goldstone Portfolios also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Goldstone Portfolios.

## Item 16. Investment Discretion

Goldstone Portfolios is generally assigned authority to exercise discretion on behalf of clients. The firm is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek said client's consent. Goldstone Portfolios is given this authority through a limited power-of-attorney included in the agreement between Goldstone Portfolios and the client. Clients may request additional limitations on this authority (such as certain securities not to be bought or sold). Goldstone Portfolios takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Financial Institutions* to be utilized.

## Item 17. Voting Client Securities

Goldstone Portfolios may vote client securities (proxies) on behalf of its clients. When Goldstone Portfolios accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in Goldstone Portfolios' Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Goldstone Portfolios' Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Goldstone Portfolios to request information about how Goldstone Portfolios voted proxies for that client's securities or to get a copy of Goldstone Portfolios' Proxy Voting Policies and Procedures. A brief summary of Goldstone Portfolios' Proxy Voting Policies and Procedures is as follows:

- Eric Goldstone will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- Mr. Goldstone will generally vote proxies according to Goldstone Portfolios' then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Goldstone Portfolios devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct Goldstone Portfolios' vote on a particular solicitation, but can revoke Goldstone Portfolios' authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Goldstone Portfolios maintains with persons having an interest in the outcome of certain votes, Goldstone Portfolios takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### **Item 18. Financial Information**

Goldstone Portfolios does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Goldstone Portfolios is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Goldstone Portfolios has no disclosures pursuant to this Item.

## **Goldstone Portfolios Incorporated**

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Prepared by:



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