

# Heritage Capital, LLC

SEC File Number: 801 – 70050

## Heritage Capital, LLC

### Brochure

### Dated 2/1/2011

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**This brochure provides information about the qualifications and business practices of Heritage Capital, LLC (the “Registrant”). If you have any questions about the contents of this brochure, please contact us at (203) 389-3553 or [paul@investfortomorrow.com](mailto:paul@investfortomorrow.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

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

**Item 2            Material Changes**

**Not Applicable**

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

- A. Heritage Capital, LLC (the “Registrant”) is a limited liability company formed on June 12, 2003 in the state of Connecticut. The Registrant became registered as an Investment Adviser Firm in July 2003. The Registrant is owned by Paul B. Schatz. Mr. Schatz is the Registrant’s Principal.
- B. As discussed below, the Registrant offers to its clients (individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations, etc.) investment advisory services. The Registrant **does not** provide financial planning, estate planning, insurance planning, or investment or non-investment consulting.

#### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage the Registrant to provide discretionary investment advisory services on a *fee-only* basis. The Registrant’s annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under the Registrant’s management (between negotiable and 2.00%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Up to \$1,000,000	2.00%
Over \$1,000,000	Negotiable

#### **RETIREMENT CONSULTING**

The Registrant also provides non-discretionary pension consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, the Registrant shall also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The terms and conditions of the engagement shall generally be set forth in a *Retirement Plan Consulting Agreement* between the Registrant and the plan sponsor

#### **MISCELLANEOUS**

**Sub-Advisory Arrangements.** The Registrant may act as a sub-advisor to other investment advisers. In addition, the Registrant may engage sub-advisors for the purpose of assisting the Registrant with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by the Registrant. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by the Registrant. The Registrant shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services. The Registrant’s Chief Compliance Officer, Paul B.

Schatz, remains available to address any questions concerning the Registrant's sub-advisory arrangements.

**Please Note: Cash Positions.** At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), the Registrant **may** maintain cash positions for defensive purposes. All cash positions (money markets, etc) shall be included as part of assets under management for purposes of calculating the Registrant's advisory fee. **The Registrant's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective may have regarding the above fee billing practice**

**Trade Error Policy.** Registrant shall reimburse accounts for losses resulting from the Registrant's trade errors, but shall not credit accounts for such errors resulting in market gains. The gains and losses are reconciled within the Registrant's custodian firm account and Registrant retains the net gains and losses.

**Advisor Leap/Spectrum Consulting.** Registrant uses third party marketing services from Advisor Leap and Spectrum Consulting to promote the services of Registrant. Services include, but are not limited to, designing and drafting marketing materials, storing, organizing and tracking data on prospective business and initiating contact with prospective Registrant clients for the sole purpose of scheduling meetings with Registrant's Principal. Advisor Leap and Spectrum Consulting are compensated for their services based on a percentage of fees contributed to Registrant by a new client at no additional expense to the client.

**Paladin Registry.** Registrant's Principal, Paul B. Schatz, is a member of the Paladin Registry ([www.paladinregistry.com](http://www.paladinregistry.com)). Mr. Schatz pays fixed monthly dues for Paladin's services. Paladin uses the dues to provide four free services to investors: pre-screen advisors, rate the quality of advisors, produce documentation for advisors' credentials, ethics, and business practices, and educate investors about investment advisors. Paladin also matches Mr. Schatz to investors who use its Self Search and Custom Search services.

**Client Obligations.** In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

**Disclosure Statement.** A copy of the Registrant's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement or Retirement Plan Consulting Agreement*. Any client who has not received a copy of Registrant's written Brochure at least 48 hours prior to executing the *Investment Advisory Agreement or Retirement Plan Consulting Agreement* shall have five business days subsequent to executing the agreement to terminate the Registrant's services without penalty.

- C. The Registrant shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets

consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on the Registrant's services.

- D. The Registrant does not participate in a wrap fee program.
- E. As of January 1, 2011, the Registrant had \$66,517,600 in assets under management on a discretionary basis and \$4,748,200 in assets under management on a non-discretionary basis.

## **Item 5            Fees and Compensation**

- A. The client can determine to engage the Registrant to provide discretionary investment advisory services on a *fee-only* basis.

### **INVESTMENT ADVISORY SERVICES**

If a client determines to engage the Registrant to provide discretionary investment advisory services on a *fee-only* basis, the Registrant's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under the Registrant's management (between negotiable and 2.00%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Up to \$1,000,000	2.00%
Over \$1,000,000	Negotiable

- B. Clients may elect to have the Registrant's advisory fees deducted from their custodial account. Both Registrant's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures. In the limited event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. The Registrant shall deduct fees and/or bill clients quarterly in arrears, based upon the market value of the assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Registrant shall generally recommend that Ceros Financial Services ("Ceros") and Rydex or the specific mutual fund or insurance company that issued the mutual fund or variable life/annuity product serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Ceros* and *Rydex* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

- D. Registrant's annual investment advisory fee shall be prorated and paid quarterly, in arrears, based upon the market value of the assets on the last business day of the previous quarter. The Registrant generally requires a \$250,000 minimum asset level for investment advisory services. The Registrant, in its sole discretion, may reduce its investment management fee and/or reduce or waive its minimum asset requirement 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, negotiations with client, etc.).

The *Investment Advisory Agreement* between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, a pro-rated portion of the earned but unpaid advisory fee shall be due.

- E. Neither the Registrant, nor its Principal accept compensation from the sale of securities or other investment products.

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

Neither the Registrant nor any supervised person of the Registrant accepts performance-based fees.

## **Item 7            Types of Clients**

The Registrant's clients shall generally include individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations. The Registrant generally requires a \$250,000 minimum asset level for investment advisory services. The Registrant, in its sole discretion, may reduce its investment management fee and/or reduce or waive its minimum asset requirement 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, negotiations with client, etc.).

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

- A. The Registrant may utilize the following methods of security analysis:
- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)
  - Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)
  - Cyclical – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

The Registrant may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)

- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Short Sales (contracted sale of borrowed securities with an obligation to make the lender whole)

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Registrant) will be profitable or equal any specific performance level(s).

- B. The Registrant's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Registrant's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, the Registrant may also implement and/or recommend short selling, a strategy that has a high level of inherent risk. (See discussion below).

Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

- C. Currently, the Registrant primarily allocates client investment assets among various mutual funds, exchange traded funds, and/or investment subdivisions of variable investment products, in accordance with Registrant's proprietary asset management programs, whereby Registrant shall exchange and/or transfer funds owned by the client among different asset categories within the same (or different) fund family(ies), on a discretionary basis, in accordance with the investment objective(s) of the client.

Registrant generally allocates the investment management assets of its client accounts, on a discretionary basis, among one or more of its proprietary asset management programs. Certain of Registrant's proprietary programs have been designed to comply with the requirements of Rule 3a-4 of the Investment Company Act of 1940. Rule 3a-4 provides similarly managed investment programs, with a non-exclusive safe harbor from the definition of an investment company. In accordance with Rule 3a-4, the following disclosure is specifically applicable to Registrant's management of client assets:

1. **Initial Interview** – at the opening of the account, the Registrant, through its designated representatives, shall obtain from the client information sufficient to determine the client's financial situation and investment objectives;
2. **Individual Treatment** – the client's account is managed on the basis of the client's financial situation and investment objectives;
3. **Quarterly Notice** – at least quarterly the Registrant shall notify the client to advise the Registrant whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of his/her/its account;
4. **Annual Contact** – at least annually, the Registrant shall contact the client to determine whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of his/her/its account.
5. **Consultation Available** – the Registrant shall be reasonably available to consult with the client relative to the status of the client's account;
6. **Quarterly Statement** – the client shall be provided with a quarterly report for the account for the preceding period;
7. **Ability to Impose Restrictions** – the client shall have the ability to impose reasonable restrictions on the management of the account, including the ability to instruct the Registrant not to purchase certain mutual funds;
8. **No Pooling** – the client's beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the client's account;
9. **Separate Account** - a separate account is maintained for the client with the Custodian; and
10. **Ownership** – each client retains indicia of ownership of the account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

Registrant's annual investment management fee may be higher or lower than that charged by other investment advisers offering similar services/programs. Registrant's investment programs may involve above-average portfolio turnover which could negatively impact upon the net after-tax gain experienced by an individual client in a taxable account.

#### **Investment Management Philosophy**



Registrant's investment management philosophy is focused on capital preservation as well as appreciation through the use of strict risk management strategies designed to protect client assets where appropriate.

Registrant's active investment management strategy seeks to reposition assets as the financial markets change, rather than buy and hold, which can expose assets to undue vulnerability and volatility.

#### **I. Relative Strength Sector Program**

Registrant's proprietary computer models select one to four top performing market sectors that offer the highest potential reward each week from a large universe. Capital appreciation far outweighs preservation in this actively traded strategy using exchange traded sector funds and the Rydex sector funds as well as sector funds within variable annuities from Jefferson National.

#### **II. Diversified Growth Program**

This is a risk managed index strategy devoted to going long (buying) and short (short selling) the S&P 500 (SPY), S&P 400 (MDY), Russell 2000 (IWM) and NASDAQ 100 (QQQQ) or Rydex mutual funds that track the various indices. Registrant's proprietary computer models calculate daily the number of stocks in uptrends, under accumulation and the rates of acceleration in each to generate the buy, sell and short sell signals in the above mentioned instruments. Trades are held from a few weeks to a few months.

#### **III. Emerging Markets Program**

Registrant's proprietary computer models select one to three top performing emerging markets that offer the highest potential reward each week from a universe of exchange traded funds (ETFs). Capital appreciation far outweighs preservation in this actively traded, aggressive strategy using ETFs.

#### **IV. Developed Markets Program**

Registrant's proprietary computer models select one to three top performing developed markets outside of the U.S. that offer the highest potential reward each week from a universe of exchange traded funds (ETFs). Capital appreciation far outweighs preservation in this actively traded strategy using ETFs.

#### **V. Short-Term Gold Program**

Registrant's Gold Managed Account Program is a risk managed sector mutual fund program designed to participate in intermediate-term rallies in the PHLX Gold/Silver Index (XAU) using the Rydex Precious Metals Fund while avoiding intermediate-term price declines in the safety of money market funds. Capital preservation and appreciation are equally weighted in this actively managed strategy, but volatility and drawdowns are significantly below historical levels through the use of tight and stringent stop losses on all positions. This program is non-correlated to the U.S. stock market.

#### **VI. High Yield Bond Program**

Registrant's intermediate-term momentum model buys, sells and shorts appropriate High Yield mutual funds from Rydex, Profunds and Direxion. Capital appreciation equals capital preservation along with dividends in this semi-active strategy designed to participate in the High Yield bond market with lower risk. Strict stop loss protection is a key element of this strategy.

## **VII. Spectrum Program**

Registrant's version of an asset allocation strategy, this program combines four of Registrant's most non-correlated strategies into one simplified plan, High Yield Bond, Short-Term Gold, Relative Strength Sector and Diversified Growth for the widest diversification possible. Each of the four programs account for 25% of the overall Spectrum portfolio.

## **VIII. Global Asset Allocation Program**

Based on the time-tested and highly successful Yale endowment model, this top down, actively managed, quantitative strategy offers diversified exposure to the global financial system across multiple asset classes. Primarily using exchange traded funds (ETFs), the world is broken down into U.S. equities, international equities, fixed income, commodities, currencies and real estate for weekly portfolio rebalances.

This long only program seeks to outperform the overall market with lower volatility and drawdowns from the use of non emotional, diligently researched, multi factor alpha signals and strict position limits. With low correlation to the U.S. stock market, capital preservation and appreciation have equal weights.

By reducing position limits, this strategy can be employed with lower overall risk, which is more in line with Registrant's other conservative programs.

## **IX. Intermediate-Term Gold Program**

The Intermediate-Term Gold Program is a long and cash, classic mean reversion based strategy that utilizes the Rydex Precious Metals Fund and similar ETFs to express its view. Designed to participate in the intermediate-term rallies in the PHLX Gold/Silver Index (XAU), this concentrated program seeks to buy weakness and sell strength using various conventional technical indicators in a proprietary fashion. Trades last as little as a week to a few months depending on market conditions. Research has shown that the most profitable trades tend to lean towards the shorter term, while the largest drawdowns usually involve longer holding periods.

This strategy has an aggressive risk/reward profile with moderate correlation to the price of gold and the gold & silver mining stocks. It is non-correlated to the U.S. stock market.

## **Item 9           Disciplinary Information**

The Registrant has not been the subject of any disciplinary actions.

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

- A. Neither the Registrant, nor its Principal, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Registrant, nor its Principal, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

- C. The Registrant does not have any relationship or arrangement that is material to its advisory business or to its clients with any related person.
- D. The Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

**Item 11            Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics, which serves to establish a standard of business conduct for all of Registrant's representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. Neither the Registrant nor any related person of Registrant recommends, buys, or sells for client accounts, securities in which the Registrant or any related person of Registrant has a material financial interest.
- C. The Registrant and/or representatives of the Registrant *may* buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of the Registrant's clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant's "Access Persons". The Registrant's securities transaction policy requires that Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of the their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date the Registrant selects; provided, however that at any time that the Registrant has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. The Registrant and/or representatives of the Registrant *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11 C, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Registrant's Access Persons.

## **Item 12 Brokerage Practices**

- A. In the event that the client requests that the Registrant recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Registrant to use a specific broker-dealer/custodian), Registrant generally recommends that investment management accounts be maintained at *Ceros* and/or *Rydex*. Prior to engaging Registrant to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in recommending *Ceros* and/or *Rydex* (or any other broker-dealer/custodian to clients) include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management fee. The Registrant's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

### **1. Research and Additional Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant may receive from *Ceros* and/or *Rydex* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Registrant may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other

educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Registrant in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at *Ceros* and/or *Rydex* as a result of this arrangement. There is no corresponding commitment made by the Registrant to *Ceros* and/or *Rydex* or any other any entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

**The Registrant's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

2. The Registrant does not receive referrals from broker-dealers.
3. The Registrant *may* accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, 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.

**Please Note:** In the event that the client directs Registrant to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Registrant.

**The Registrant's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that the Registrant provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant's 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 be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13          Review of Accounts**

- A. For those clients to whom Registrant provides investment supervisory services, account reviews are conducted on an ongoing basis by the Registrant's Principal and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with the Registrant on an annual basis.
- B. The Registrant *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, the Registrant may receive an indirect economic benefit from *Ceros* and/or *Rydex*. The Registrant, without cost (and/or at a discount), may receive support services and/or products from *Ceros* and/or *Rydex*.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at *Ceros* and/or *Rydex* as a result of this arrangement. There is no corresponding commitment made by the Registrant to *Ceros* and/or *Rydex* or any other any entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

**The Registrant's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

- B. If a client is introduced to the Registrant by either an unaffiliated or an affiliated solicitor, Registrant *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from the

Registrant's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to the Registrant by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of the Registrant's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between the Registrant and the solicitor, including the compensation to be received by the solicitor from the Registrant.

## **Item 15      Custody**

The Registrant shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

**Please Note:** To the extent that the Registrant provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Registrant with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of the Registrant's advisory fee calculation.

## **Item 16      Investment Discretion**

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, client shall be required to execute an *Investment Advisory Agreement*, naming the Registrant as client's attorney and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Registrant on a discretionary basis may, at anytime, impose restrictions, **in writing**, on the Registrant's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Registrant's use of margin, etc.).

## **Item 17      Voting Client Securities**

- A. The Registrant does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.

- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Registrant to discuss any questions they may have with a particular solicitation.

**Item 18      Financial Information**

- A. The Registrant does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Registrant has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: The Registrant's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**