

MBC Brochure
(Part 2A of Form ADV)

MONTGOMERY BROTHERS, CAPPIELLO, LLC
4720 Montgomery Lane, Suite 650
Bethesda, Maryland 20814
(301) 652-6950
(301) 652-6954
www.montgomerybros.com
cappiello@aol.com

This brochure provides information about the qualifications and business practices of MONTGOMERY BROTHERS, CAPPIELLO, LLC. If you have any questions about the contents of this brochure, please contact us by phone at (301) 652-6950, or by email at cappiello@aol.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 MONTGOMERY BROTHERS, CAPPIELLO, LLC is available on the SEC's website at www.adviserinfo.sec.gov

March 31, 2011

Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure: ADV Part II.

Material Changes since the Last Update

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

Full Brochure Available

Whenever you would like to receive a complete copy of our MONTGOMERY BROTHERS, CAPPIELLO, LLC Brochure, please contact us by telephone at (301) 652-6950 or by email at research@montgomerybros.com.

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Advisory Business

Firm Description

MONTGOMERY BROTHERS, CAPPIELLO, LLC, ("MONTGOMERY BROTHERS, CAPPIELLO, LLC") was founded in 2003.

MONTGOMERY BROTHERS, CAPPIELLO, LLC provides investment management services to individuals, pension and profit sharing plans, trusts, estates, charitable and other not-for-profit organizations and small businesses.

MONTGOMERY BROTHERS, CAPPIELLO, LLC, is strictly a fee-only investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. MONTGOMERY BROTHERS, CAPPIELLO, LLC does not provide financial planning. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted or paid. No trailers, loads, 12B-1 or any other fees are accepted.

MONTGOMERY BROTHERS, CAPPIELLO, LLC does not act as a custodian of client assets. The client always maintains asset control. MONTGOMERY BROTHERS, CAPPIELLO, LLC places trades for clients as its agent and attorney-in-fact.

Principal Owners

JOHN E. MONTGOMERY is a 50% stockholder and Frank A. Cappiello & Associates is a 50% stockholder. .

Types of Advisory Services

MONTGOMERY BROTHERS, CAPPIELLO, LLC provides only investment advisory services, also known as asset management services.

As of December 31, 2010, MONTGOMERY BROTHERS, CAPPIELLO, LLC manages approximately \$5,768,550 in assets for eight (8) accounts on a discretionary basis through a joint venture with MONTGOMERY BROTHERS, INC.

Tailored Relationships

Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

Investment Advisory Agreement

Most clients choose to have MONTGOMERY BROTHERS, CAPPIELLO, LLC manage their marketable securities and investable assets on a discretionary basis and to act as its agent and attorney-in-fact (trading authorization), with full authority and discretion to manage the account during the term of the Investment Advisory Agreement.

The annual Investment Advisory Agreement fee is based on a percentage of the investable assets according to the following schedule:

1.00% on the first \$2,000,000;
0.75% on the next \$8,000,000 (from 2,000,001 to 10,000,000); and
0.50% on the next \$10,000,000.

The minimum annual fee is \$7,500 and is *NEGOTIABLE*. Current client relationships may exist where the fees are higher or lower than the fee schedule above.

Although the Investment Advisory Agreement is an ongoing agreement and adjustments may be required, the length of service to the client is at the client's discretion. The client or MONTGOMERY BROTHERS, CAPPIELLO, LLC may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

Retainer Agreement

In some circumstances, a *Retainer Agreement* may be executed in lieu of an *Investment Advisory Agreement* when it is more appropriate to work on a fixed-fee basis. The annual minimum fee for a *Retainer Agreement* is \$7,500 and is *NEGOTIABLE*. MONTGOMERY BROTHERS, CAPPIELLO, LLC currently has no such retainers.

Asset Management

Investments may include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Assets may also be invested in no-load mutual funds and exchange-traded funds. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. MONTGOMERY BROTHERS, CAPPIELLO, LLC receives no portion of such fees. Discount brokerages may charge a transaction fee for the purchase of some funds.

MONTGOMERY BROTHERS, CAPPIELLO, LLC receives none of these fees.

Stocks and bonds are purchased or sold through a brokerage account as appropriate. The brokerage firm charges a fee for stock and bond trades. MONTGOMERY BROTHERS, CAPPIELLO, LLC does not receive any cash compensation, in any form, from fund companies or custodians. MONTGOMERY BROTHERS, CAPPIELLO, LLC often uses Charles Schwab & Company as custodian for client accounts.

Initial public offerings (IPOs) are not available through MONTGOMERY BROTHERS, CAPPIELLO, LLC

Termination of Agreement

A Client may terminate any of the aforementioned agreements at any time by notifying MONTGOMERY BROTHERS, CAPPIELLO, LLC in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination. If the client made an advance payment, MONTGOMERY BROTHERS, CAPPIELLO, LLC will refund any unearned portion of the advance payment.

MONTGOMERY BROTHERS, CAPPIELLO, LLC may terminate any of the aforementioned agreements at any time by notifying the client in writing. If the client made an advance payment, MONTGOMERY BROTHERS, CAPPIELLO, LLC will refund any unearned portion of the advance payment.

Fees and Compensation

Description

MONTGOMERY BROTHERS, CAPPIELLO, LLC bases its fees on a percentage of assets under management.

Fees are *NEGOTIABLE*.

Fee Billing

Investment management fees are billed quarterly, in *ADVANCE*, meaning that we invoice you *DURING* the three-month billing period after the quarter has *ENDED*. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account before such debiting can occur.

Other Fees

MONTGOMERY BROTHERS, CAPPIELLO, LLC, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated

future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

Expense Ratios

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 1.00 means that the mutual fund company charges 1.0% of the client's assets in that fund for their services on an annual basis. These fees are in addition to the fees paid by the client to MONTGOMERY BROTHERS, CAPPIELLO, LLC but MONTGOMERY BROTHERS, CAPPIELLO, LLC receives none of the fees charged by fund companies.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

Past Due Accounts and Termination of Agreement

MONTGOMERY BROTHERS, CAPPIELLO, LLC reserves the right to stop work on any account that is more than 90 days overdue.

Performance-Based Fees

MONTGOMERY BROTHERS, CAPPIELLO, LLC does not charge performance-based fees.

Types of Clients

Description

MONTGOMERY BROTHERS, CAPPIELLO, LLC generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, or charitable and other non and not-for-profit organizations, corporations or business entities.

Client relationships vary in scope and length of service.

Account Minimums

The minimum account size is \$750,000 of assets under management, which equates to an annual fee of \$7,500.

MONTGOMERY BROTHERS, CAPPIELLO, LLC has the discretion to waive the account minimum.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Security analysis methods may include fundamental analysis, charting, technical analysis, cyclical analysis, and include quantitative and other methods. Quantitative methods include various screening techniques and mathematical and statistical sampling of data.

The main sources of information include financial publications, research materials prepared by others, corporate rating services, timing services, inspections of corporate activities including annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Other sources of information that MONTGOMERY BROTHERS, CAPPIELLO, LLC use include Baseline, ValueLine, Charles Schwab & Company's "SchwabLink" service, Advisor Intelligence, and the World Wide Web.

Investment Strategies

The primary investment strategy used on client accounts is based on asset allocation.

The investment strategy for a specific client is based upon the objectives discussed with the client during consultations. The client may change these objectives at any time by contacting MONTGOMERY BROTHERS, CAPPIELLO, LLC

Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular

underlying circumstances. For example, political, economic and social conditions may trigger market events.

- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Disciplinary Information

Legal and Disciplinary

The firm and its employees have not been involved in any legal or disciplinary events related to past or present investment clients.

Other Financial Industry Activities and Affiliations

Affiliations

MONTGOMERY BROTHERS, CAPPIELLO, LLC has a joint venture with MONTGOMERY BROTHERS, INC. (MBI).

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

Code of Ethics

The employees of MONTGOMERY BROTHERS, CAPPIELLO, LLC have committed to The Chartered Financial Analyst Code of Ethics that is available for review by clients and prospective clients upon request.

Participation or Interest in Client Transactions

MONTGOMERY BROTHERS, CAPPIELLO, LLC and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the MONTGOMERY BROTHERS, CAPPIELLO, LLC *Compliance Manual*.

Personal Trading

The Chief Compliance Officer of MONTGOMERY BROTHERS, CAPPIELLO, LLC is John E. Montgomery. All trades are preapproved by John Montgomery or Nancy Koplow before being entered. Frank A. Cappiello has either John Montgomery or Nancy Koplow approve his trades before entering. John Montgomery reviews all employee trades each quarter. His trades are reviewed by Nancy Koplow. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small such trades do not affect the securities markets.

Brokerage Practices

Selecting Brokerage Firms

MONTGOMERY BROTHERS, CAPPIELLO, LLC does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. MONTGOMERY BROTHERS, CAPPIELLO, LLC generally recommends the use of Charles Schwab & Company as custodian based on its proven integrity and financial responsibility, its best execution of orders and reasonable commission rates.

Clients can designate their own custodians. If they do so, MONTGOMERY BROTHERS, CAPPIELLO, LLC cannot guarantee best execution or low commissions.

MONTGOMERY BROTHERS, CAPPIELLO, LLC *DOES NOT* receive additional fees or any commissions from any custodial arrangements.

Best Execution

MONTGOMERY BROTHERS, CAPPIELLO, LLC reviews the execution of trades at each custodian each quarter. Trading fees charged by the custodians is also reviewed on a quarterly basis. MONTGOMERY BROTHERS, CAPPIELLO, LLC does not receive any portion of the trading fees.

Soft Dollars

MONTGOMERY BROTHERS, CAPPIELLO, LLC receives no soft dollars.

Review of Accounts

Periodic Reviews

Account reviews are performed at least quarterly by JOHN E. MONTGOMERY, PRESIDENT. Account reviews are performed more frequently as market conditions dictate.

Regular Reports

MONTGOMERY BROTHERS, CAPPIELLO, LLC reports to clients on a calendar quarterly basis and John Montgomery is available to meet with clients on a mutually convenient basis. John Montgomery, Frank A. Cappiello and Nancy Koplow are also usually available by phone and/or email.

Client Referrals and Other Compensation

Incoming Referrals

MONTGOMERY BROTHERS, CAPPIELLO, LLC has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

Referrals Out

MONTGOMERY BROTHERS, CAPPIELLO, LLC does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Custody

Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the report statements provided by MONTGOMERY BROTHERS, CAPPIELLO, LLC

Investment Discretion

Discretionary Authority for Trading

MONTGOMERY BROTHERS, CAPPIELLO, LLC accepts discretionary authority to manage securities accounts on behalf of clients. MONTGOMERY BROTHERS, CAPPIELLO, LLC has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold if such trading authorization has been agreed to in writing. However, MONTGOMERY BROTHERS, CAPPIELLO, LLC consults with the client prior to each trade to obtain concurrence if a blanket trading authorization has not been given.

The client approves the custodian to be used and the commission rates paid to the custodian. MONTGOMERY BROTHERS, CAPPIELLO, LLC does not receive any portion of the transaction fees or commissions paid by the client to any custodian on any trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf and is required for all discretionary accounts.

Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute trades.

Voting Client Securities

Proxy Votes

MONTGOMERY BROTHERS, CAPPIELLO, LLC does vote proxies on securities if clients so wish. Unless otherwise directed in writing, MONTGOMERY BROTHERS, CAPPIELLO, LLC usually votes with management or at its own discretion. Beyond the aforementioned,

MONTGOMERY BROTHERS, CAPPIELLO, LLC maintains no written Proxy Voting Guidelines.

Financial Information

Financial Condition

MONTGOMERY BROTHERS, CAPPIELLO, LLC does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because MONTGOMERY BROTHERS, CAPPIELLO, LLC does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

Business Continuity Plan

General

MONTGOMERY BROTHERS, CAPPIELLO, LLC has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

Alternate Offices

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

Loss of Key Personnel

MONTGOMERY BROTHERS, CAPPIELLO, LLC has a verbal agreement for a Business Continuation Plan with MONTGOMERY BROTHERS, INC. to support MONTGOMERY BROTHERS, CAPPIELLO, LLC in the event of Frank A. Cappiello's serious disability or death. MONTGOMERY BROTHERS, CAPPIELLO, LLC is working to formalize such a plan in writing.

Information Security Program

Information Security

MONTGOMERY BROTHERS, CAPPIELLO, LLC maintains an information security program to reduce the risk that your personal and confidential information may be breached.

Privacy Notice

MONTGOMERY BROTHERS, CAPPIELLO, LLC is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

