

PART 2A FORM ADV

FIRM BROCHURE

Downey Capital Management, Inc.

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April 12, 2011

Here are a few important details before you begin.

This brochure provides information about the qualifications and business practices of Downey Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 617-338-4866 and/or CDOWNEY@DOWCAP.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 Downey Capital Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Being a “registered investor adviser” or describing ourselves as being “registered” does not imply a certain level of skill or training.

Item 2. Material Changes

As this is Downey Capital Management Inc.'s first Brochure since the adoption of the new format for the brochure, a summary of material changes is not provided.

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Item 4. Advisory Business

A. Organization and Ownership

Downey Capital Management, Inc. (“**Downey Capital**” or the “**Adviser**”) is a Massachusetts corporation organized in December 1999. Christopher Downey is the principal owner of the Adviser and serves as its president.

B. Advisory Services

The Adviser intends to manage individualized investment portfolios of equity, fixed income, and other types of securities, including mutual funds. The Adviser generally manages client portfolios as either a basket of securities or a selection of exchange-traded funds.

C. Tailoring of Investment Advice

The Adviser provides advisory services based on the investment objectives of its clients. By employing a combination of fundamental and technical analysis and a wide variety of investment strategies, the Adviser seeks to tailor its advisory services to the particular client’s investment objectives and tolerance for risk.

D. Wrap Fee Programs

The Adviser does not participate in any wrap fee programs.

E. Assets Under Management

The Adviser manages assets on a discretionary basis. As March 31, 2011, the amount of assets managed by the Adviser was \$51,077,953.

Item 5. Fees and Compensation

A. Management Fees

The Adviser may charge fees for its investment management services based upon a percentage of assets under management. Standard fee schedules based upon a percentage of assets under management are set forth below.

- 1.0% on the first \$10 million
- 0.75% on the next \$10 million
- Over \$20 million negotiable

The above fees are subject to negotiation, and the Adviser may also negotiate fixed fees for certain accounts.

Except as otherwise provided in the Adviser's advisory agreements with clients, clients may generally terminate the agreements upon written notice to the Adviser, normally thirty days prior to the effective date of such termination. If a client has paid a fee in advance to the Adviser, a pro-rata refund will be made in the event of early cancellation by either the Adviser or the client.

B. Billing of Management Fees

Fees are generally billed quarterly in arrears based on the average asset balance of the portfolio during such quarter. Under certain circumstances, fees may be payable in advance (but in any event no more than \$500 per client and no more than six months in advance).

C. Other Fees

In addition to the fees described in **Item 5.A** above, the Adviser's clients' accounts may incur the cost of custodial services and brokerage commissions relating to investments (as further discussed in **Item 12** below).

D. Fees Payable and Fee Refunds

Fees are generally billed quarterly in arrears based on the average asset balance of the portfolio during such quarter. Under certain circumstances, fees may be payable in advance (but in any event no more than \$500 per client and no more than six months in advance).

Except as otherwise provided in the Adviser's advisory agreements with clients, clients may generally terminate the agreements upon written notice to the Adviser, normally thirty days prior to the effective date of such termination. If a client has paid a fee in advance to the Adviser, a pro-rata refund will be made in the event of early cancellation by either the Adviser or the client.

E. Compensation for the Sale of Securities

Neither the Adviser nor its supervised persons accepts any compensation for the sale of securities or other investment products.

Item 6. Performance-Based Fees and Side-By-Side Management

The Adviser does not accept performance-based fees.

Item 7. Types of Clients

The Adviser's clients include individuals, trusts, estates, charitable organizations, corporations, or other business entities. The Adviser will generally accept only clients with management assets sufficient to benefit from the advice and management it provides. Generally, this results in a minimum requirement of \$50,000 of manageable assets. Accounts under \$100,000 are generally encouraged to use an exchange-traded fund portfolio.

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

A. Investment Process

The Adviser intends to manage individualized investment portfolios of equity, fixed income, and other types of securities, including mutual funds. The Adviser provides advisory services based on the investment objectives of its clients. The Adviser generally manages client portfolios as either a basket of securities or a selection of exchange-traded funds. Investing in securities involves a risk of loss that all clients should be prepared to bear.

The Adviser employs a combination of fundamental and technical analysis and a wide variety of investment strategies, including:

- **Equity investments.** The Adviser may invest in equity securities, including exchange-traded and over-the-counter (OTC) common and preferred stocks, warrants and rights, securities convertible into common stocks, securities of other investment companies.
- **Fixed income investments.** The Adviser may invest in investment grade and non-investment grade fixed income securities, including corporate bonds, mortgage-backed and asset-backed securities.

The Adviser may also invest in U.S. government securities and non-U.S. government securities, including securities issued by the agencies or instrumentalities of non-U.S. governments or by supranational organizations.

- **Foreign investments.** The Adviser may invest in equity and fixed income securities of foreign issuers. In connection with advice about non-U.S. securities, the Adviser may offer advice regarding foreign exchange contracts, including forward foreign currency contracts and options on foreign currencies.
- **Private Placements.** The Adviser may make investments on behalf of certain clients in private securities and privately purchased securities.
- **Cash management.** The Adviser may hold cash pending investment, and may invest in money market instruments for cash management purposes. The amount of assets a client may hold for cash management purposes will depend on market conditions and the need to meet expected redemption requests.
- **Exchange-traded funds (ETFs).** Instead of investing directly in securities on behalf of a client, the Adviser may invest in a selection of mutual funds or unit investment trusts that are traded on a stock exchange, called exchange-traded funds (ETFs).

B. Material Risks

- **Stock market and interest rate risk.** The securities markets are volatile and the market prices of the portfolio securities held in a client's account may decline generally. Securities fluctuate in price based on changes in a company's financial condition and overall market and economic conditions, such as real or perceived adverse economic or political conditions, inflation, changes in interest rates, lack of liquidity in the bond markets or adverse investor sentiment.

The value of a client's portfolio may go down when interest rates rise. A rise in rates tends to have a greater impact on the prices of longer term or duration securities. The recent financial crisis has caused a significant decline in the value and liquidity of many securities. In response to the crisis, the U.S. and other governments and the Federal Reserve and certain foreign central banks have taken steps to support financial markets. The withdrawal of this support could also negatively affect the value and liquidity of certain securities.

- **Credit risk.** If an issuer or guarantor of a security held by a client or a counterparty to a financial contract with the client defaults or is downgraded, or is perceived to be less creditworthy, or if the value of the assets underlying a security declines, the value of the client's investment will typically decline. Non-investment grade fixed income securities (commonly known as or "junk bonds") have a higher risk of default and are considered speculative.
- **Prepayment or call risk.** Many issuers have a right to prepay their securities. If interest rates fall, an issuer may exercise this right. If this happens, the Adviser will be forced to reinvest prepayment proceeds at a time when yields on securities available in the market are lower than the yield on the prepaid security. A client portfolio also may lose any premium it paid on the security.
- **Extension risk.** If interest rates rise, repayments of fixed income securities may occur more slowly than anticipated by the market. This may drive the prices of these securities down because their interest rates are lower than the current interest rate and they remain outstanding longer.
- **Foreign investments risk.** Investments in securities of foreign issuers involve greater risk than investments in securities of U.S. issuers. Foreign countries in which the Adviser may invest may have markets that are less liquid and more volatile than U.S. markets and may suffer from political or economic instability. In some foreign countries, less information is available about issuers and markets because of less rigorous accounting and regulatory standards than in the United States. Currency fluctuations could erase investment gains or add to investment losses.
- **Large capitalization company risk.** Large capitalization companies may fall out of favor with investors.

- **Small and medium capitalization company risk.** A client will be exposed to additional risks as a result of its investments in the securities of small and medium capitalization companies. Small and medium capitalization companies may fall out of favor with investors; may have limited product lines, operating histories, markets or financial resources; or may be dependent upon a limited management group. The prices of securities of small and medium capitalization companies generally are more volatile than those of large capitalization companies and are more likely to be adversely affected than large capitalization companies by changes in earnings results and investor expectations or poor economic or market conditions, including those experienced during a recession. Securities of small and medium capitalization companies may underperform large capitalization companies, may be harder to sell at times and at prices the portfolio managers believe appropriate and may offer greater potential for losses.
- **Liquidity risk.** Some securities held by a client may be difficult to sell, or illiquid, particularly during times of market turmoil. Illiquid securities may also be difficult to value.
- **Cash management and defensive investing risk.** The value of the investments held by a client for cash management or defensive investing purposes may be affected by changing interest rates and by changes in credit ratings of the investments. If a client holds cash uninvested it will be subject to the credit risk of the depository institution holding the cash.
- **Recent market events risk.** The equity and debt capital markets in the United States and internationally have experienced unprecedented volatility. This financial crisis has caused a significant decline in the value and liquidity of many securities. This environment could make identifying investment risks and opportunities especially difficult for the Adviser. These market conditions may continue or get worse. In response to the crisis, the U.S. and other governments and the Federal Reserve and certain foreign central banks have taken steps to support financial markets. The withdrawal of this support could also negatively affect the value and liquidity of certain securities. In addition, legislation recently enacted in the United States calls for changes in many aspects of financial regulation. The impact of the legislation on the markets, and the practical implications for market participants, may not be fully known for some time.
- **Exchange-traded funds (ETFs) risk.** As noted above, instead of investing in a basket of securities, the Adviser may, on behalf of certain clients, invest in a selection of ETFs. Investing in such ETFs will give a client exposure to the securities comprising the index on which the ETF is based and will expose the client to risks similar to those of investing directly in those securities. Unlike shares of typical mutual funds or unit investment trusts, shares of ETFs are traded on an exchange and may trade throughout a trading day. ETFs are bought and sold based on market values and not at net asset value, and, therefore, may trade at either a premium or discount to net asset value. However, the trading prices of index-based ETFs tend to closely track the actual net asset value of the underlying

portfolios. A client's portfolio will generally gain or lose value on holdings of an ETF consistent with the performance of the index on which the ETF is based. The client's portfolio will pay brokerage commissions in connection with the purchase and sale of shares of ETFs, and, as a shareholder of the ETF, will bear a pro rata share of any management fees and operating fees incurred by the ETF.

C. Risks Associated with Particular Types of Securities

Please the discussion in **Item 8.B.** above.

Item 9. Disciplinary Information

Neither the Adviser nor any of its management persons has been subject to any legal or disciplinary events.

Item 10. Other Financial Industry Activities and Affiliations

A. Affiliated Broker-Dealers

Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

B. Affiliated Commodity Advisors

Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

C. Other Affiliations and Conflicts of Interest

Alicia Downey, a director and clerk of the Adviser, is also a partner at Bingham McCutchen LLP, the law firm that currently represents the Adviser.

D. Recommendation of Other Investment Advisors

The Adviser does not recommend or select other investment advisers for its clients.

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

A. Code of Ethics

The Adviser has adopted a code of ethics pursuant to Rule 204A-1 under the U.S. Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). The Adviser's code of ethics (the “**Code of Ethics**”) requires compliance with all applicable federal and state securities laws. The Code of Ethics has been adopted based on the principle that each supervised person of the Adviser has a fiduciary duty to act in the best interest of the Adviser and its clients, and particularly, to conduct his or her affairs, including personal

securities transactions, in such a manner as to avoid serving his or her own personal interests ahead of the Adviser and its clients and to avoid conflicts of interest.

Employees of the Adviser may not trade for clients or themselves or recommend trading in securities of a company while in possession of material, non-public information concerning such company, or disclose such information to any person not entitled to receive it.

Employees must notify the Chief Compliance Officer if they are employed by, or accept compensation from, any other person as a result of any business activity, other than a passive investment, outside the scope of his or her relationship with the Adviser. In the case of securities-related employment or compensation, employees must receive the prior approval of Chief Compliance Officer.

A copy of the Adviser's Code of Ethics is available to clients or prospective clients upon request.

B. Purchases and Sales of Securities in which the Adviser has Material Financial Interest

The Adviser and its related persons do not recommend to clients, or buy or sell for client accounts, securities in which the Adviser or its related persons have a material financial interest. Although the Adviser's directors, employees and officers may buy and sell securities for their own account or the account of others, they may not buy securities from or sell securities to the Adviser.

C. Purchases and Sales of Securities by Clients and the Adviser and/or its Affiliates

From time to time, the Adviser may recommend to clients that they buy or sell securities or other instruments in which the Adviser, the Adviser's directors, officers or employees have or may later acquire some financial interest (e.g., such persons may themselves own interests in such securities). The personal securities transactions described above are subject to the Adviser's Code of Ethics which requires that employees avoid activities, interests and relationships that might interfere or appear to interfere with making decisions in the best interests of the Adviser's clients.

D. Purchases and Sales of Securities by Clients and the Adviser and/or its Affiliates at the Same Time

The Adviser's Code of Ethics requires that each access person of the Adviser pre-clear personal securities transactions in initial public offerings and limited private offerings. To monitor compliance with these pre-clearance requirements, as well as other types of personal securities transactions, the Adviser requires each access person to submit quarterly transactions reports or to arrange for duplicate account statements to be sent to the Adviser.

Item 12. Brokerage Practices

A. Brokerage

In selecting a broker/dealer for each specific portfolio transaction, the Adviser endeavors to use its best judgment to choose the broker/dealers most capable of providing “best execution” on an overall basis. As a matter of policy, broker/dealers will not be selected by the Adviser solely on the basis of price, but will be selected on the basis of an evaluation by the Adviser of the overall value and quality of the brokerage services provided by such firms to client accounts. The Adviser will generally utilize the following guidelines, among others, to gauge the level of service provided by the broker/dealers in an attempt to ensure that best execution is achieved:

- (i) whether the price level provided by the broker/dealer on each transaction is competitive and fair relative to the market;
- (ii) whether the commission level charged by the broker/dealer is competitive and reasonable taking into account the size and difficulty of the transaction, the liquidity of the security, and the price of the security.
- (iii) whether certain broker/dealers have specialization in a particular security type;
- (iv) whether the Adviser has a strong relationship with a broker/dealer;
- (v) whether the broker/dealer has the ability to obtain liquidity, complete trades, engage in unique trading strategies, execute trades quickly, satisfy the Adviser’s trading needs, and maximize opportunities for price improvement;
- (vi) whether certain broker/dealers have proven to be dependable and reliable over time;
- (vii) whether certain broker/dealers assure that they will hold the Adviser’s trading strategy and positions in confidence;
- (viii) whether certain broker/dealers provide more accurate and timely execution and are quicker to resolve settlement errors and disputes;
- (ix) whether broker/dealers that have adequate resources to support the business have demonstrated an investment in, and commitment to, technology and a quality trading system;
- (x) whether a broker/dealer is willing to commit the firm’s capital in order to complete a particular transaction;
- (xi) whether the quality of the brokerage and/or research provided by the broker/dealer is better than the brokerage and/or research material provided by other broker/dealers; and

(xii) in the event that the broker/dealer is providing brokerage and/or research services to the Adviser, whether the amount of the commission is reasonable in relation to the value of the brokerage and/or research services provided.

The Chief Compliance Officer periodically reviews the performance of the brokers selected by the Adviser.

The Adviser is authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide it with brokerage and research products and services or to pay higher commissions to such firms if the Adviser determines such prices or commissions are reasonable in relation to the overall brokerage and research products and services provided. Accordingly, the Adviser may be deemed to be paying for brokerage and research products and services with “soft” or commission dollars. The research products and services furnished by brokers/dealers may include, among other things, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services, discussion with research personnel, special execution capabilities, order of call, and the availability of stocks to borrow for short trades.

Clients should consider that these arrangements may create a potential conflict of interest between the Adviser and its clients, because the Adviser’s decisions to use a particular broker/dealer may in part be based on the broker’s/dealer’s ability and/or willingness to provide certain research products and services, and not merely on the broker’s/dealer’s ability to provide the best trade execution for the best price. These conflicts of interest may be particularly apparent in the event that the Adviser uses soft dollar commission to pay expenses it would otherwise be required to pay itself.

Although the Adviser believes that its clients’ accounts benefit from many of the brokerage and research products and services obtained with soft dollars generated by its trades, some client accounts may not benefit exclusively or at all. Brokerage and research products and services generated by trading on behalf of a client account may also be utilized by the Adviser in connection with its investment services for other accounts. The Adviser may use research obtained through soft dollars commissions to benefit all of its clients, not just the clients for whom the order is being executed, and benefits may be received by clients who have instructed the Adviser to use brokers/dealers who do not participate in soft dollar arrangements with the Adviser.

The Chief Compliance Officer is responsible for reviewing the performance of brokers/dealers by the Adviser and the brokerage and research and products services provided to the Adviser’s clients through the use of soft dollars.

B. Trade Aggregation

The investment objectives, restrictions and strategies of many clients advised by the Adviser are similar. As a result, the Adviser generally expects to aggregate orders for multiple client accounts, unless it believes that doing so would conflict or otherwise be

inconsistent with its duty to seek best execution for client accounts or the terms of any agreement governing a client account or client instructions.

Each account that participates in an aggregated security order will generally participate at the average share price for such order on a given business day, with transaction costs shared pro rata based on each account's participation, unless otherwise determined by the Chief Compliance Officer.

Orders generally shall be allocated in the following manner: (i) pro rata among all accounts based upon the respective sizes of the participating accounts; or (ii) based upon a uniform target percentage holding across all participating accounts, provided that the Adviser may employ an alternate allocation method if, under the circumstances, such alternate allocation method is reasonable, employed in good faith and does not result in an unfair or inequitable disadvantage to any account.

When determining whether to use an alternate allocation method, the Adviser may consider, among other things, (i) the amount of available cash or the need of a particular account for cash flow; (ii) whether employing the standard allocation method would result in an odd lot or de minimis position for one or more accounts; and (iii) the incurrence by an account of successive custodial or minimum ticket charges for multiple-day partial fills. The Adviser may also establish threshold amounts for participation in, or exclusion from, allocations of securities, if doing so would not systematically disadvantage particular accounts over time.

Item 13. Review of Accounts

A. Account Review

The Adviser will periodically conduct reviews to monitor portfolio performance and ensure that each client's portfolio conforms to guidelines established by the Adviser and the client. The Adviser meets with clients as necessary in the context of these periodic reviews and generally meets with clients at least annually to review portfolio performance. The Adviser may undertake special reviews due to extraordinary economic or political developments in the U.S. or abroad.

Christopher W. Downey, Director, President and Chief Compliance Officer of the Adviser, will conduct the reviews of all client accounts in accordance with policies of the Adviser.

B. Factors that Trigger an Account Review

Not applicable.

C. Account Statements

The Adviser will send client reports quarterly. The quarterly report will contain the following information: (i) for each investment in the portfolio on the valuation date, the number of securities held, the value of such securities, and a comparison of such

information with the information contained in the previous statement; (ii) details of all transactions undertaken since the previous statement; (iii) all contributions and withdrawals made by the client since the previous statement; (iv) basis of all valuations of investments; (v) exchange rates used where available; and (vi) all fees and expenses charged to the client's account.

Item 14. Client Referrals and Other Compensation

A. Benefits from Others for Providing Investment Advice

The Adviser does not receive any economic benefits from non-clients for providing investment advice or other advisory services to its clients.

B. Client Referrals

The Adviser may enter into agreements with solicitors under which it pays fees in respect of solicitation activities as permitted by Rule 206(4)-3 under the Advisers Act with the approval of the Chief Compliance Officer.

Such solicitation agreements will require that the solicitor perform its duties in accordance with the Advisers Act and the regulations thereunder and appropriate state regulations. In addition, solicitors will be required to provide each client with the Adviser's written disclosure documents and the solicitor's written disclosure document providing the (1) name of the solicitor; (2) the nature of the relationship between the solicitor and the Adviser; (3) a statement that the solicitor will be compensated for its solicitation services by the Adviser and (4) the terms of the compensation arrangement.

Solicitors would generally receive cash or a portion of the advisory fees paid by clients referred to it by those solicitors. Clients of solicitors will not be charged an amount in addition to the Adviser's advisory fees, nor will they be charged a higher advisory fee than other clients to cover the costs of the solicitation of their accounts.

Item 15. Custody

The Adviser does not have custody of its clients' assets.

Item 16. Investment Discretion

In most cases, the Adviser has full discretionary authority to manage accounts for its clients, including the authority to decide which securities are bought and sold, the amount and price of those securities and selection of and commissions paid to brokers, without obtaining specific client consent.

Item 17. Voting Client Securities

A. Proxy Voting Authority

If a client has delegated to the Adviser the power to vote proxies, the Adviser generally will vote proxies so as to promote the economic value of the underlying securities, and generally will follow the guidelines provided below.

While the guidelines provided below are not exhaustive, they do provide a good indication of the Adviser's general approach to a wide range of issues. On occasion, the Adviser may vote a proxy otherwise than suggested by the guidelines, or may determine that refraining from voting is in a client's best interest. However, departures from the guidelines are expected to be rare, and the Adviser will maintain a record supporting such a vote. If a matter is not specifically covered by these guidelines, the Adviser shall vote the proxy consistent with the general principles of these guidelines and in the client's best interest.

The Adviser generally characterizes proxy voting issues into three Levels (I, II and III). Level I matters normally are voted based on the recommendation of the issuer's management. Matters that could meaningfully impact the position of existing shareholders (Levels II and III) are given special consideration and voted in a manner that is believed to support the interests of shareholders.

Level I Proposals

Level I proposals are those which do not propose to change the structure, bylaws, or operations of the corporation to the detriment of the shareholders. Given the routine nature of these proposals, proxies will nearly always be voted with management. Traditionally, Level I issues include:

- Approval of auditors
- Election of directors and officers of the corporation
- Name changes
- Declaring stock splits
- Elimination of preemptive rights
- Incentive compensation plans
- Minor amendments to the articles of incorporation
- Automatic dividend reinvestment plans
- Retirement plans, pensions plans and profit sharing plans, creation of and amendments thereto

Level II Proposals

Issues in this category are more likely to affect the structure and operations of the corporation and, therefore, will have a greater impact on the value of a client's investment. The CCO will review each issue in this category on a case-by-case basis and, if required, perform diligence research to make a decision based on the best interest of the client. Level II proposals include:

- Mergers and acquisitions
- Restructuring
- Re-incorporation or formation
- Indemnification provisions for directors
- Liability limitations of directors
- Changes in capitalization
- Increase or decrease in number of directors
- Profit Sharing Plans
- Executive Compensation Plans
- Shareholder Proposals
- Increase or decrease in preferred stock
- Increase or decrease in common stock
- Stock option plans or other compensation plans
- Social issues

Level III (Corporate Governance) Proposals

The Adviser generally will vote against any management proposal that clearly has the effect of restricting the ability of shareholders to realize the full potential value of their investment. Proposals in Level III may include:

- Poison pills
- Golden parachutes
- Greenmail
- Supermajority voting
- Board classification without cumulative voting
- Confidential voting

Proxies will be voted manually by the Chief Compliance Officer. The Chief Compliance Officer will examine the materials and then decide on how to vote based on the Guidelines for Levels I, II and Level III proposals.

Upon request, the Adviser will provide clients with a copy of its proxy voting policies and procedures and information on how the client's proxies were voted.

B. Limits on Proxy Voting Authority

Not applicable.

Item 18. Financial Information

A. Prepayment of Fees

The Adviser does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

B. Financial Impairment

The Adviser is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

B. Bankruptcy Petition

The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.

Item 19. Requirements for State-Registered Advisers

Not applicable.