

McRae Capital Management, Inc.

Part 2A of Form ADV

The Brochure

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This brochure provides information about the qualifications and business practices of McRae Capital Management, Inc. (“MCM” or “Applicant”). If you have any questions about the contents of this brochure, please contact us at 973-387-1080. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about MCM is also available on the SEC’s website at: www.adviserinfo.sec.gov.

MCM is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

Material Changes

MCM's most recent update to Part 2 of Form ADV was made March 10, 2011. MCM's business activities have not changed materially since the time of that update.

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Advisory Business

MCM was founded in 1981 and has been registered with the SEC as an investment adviser since 1981. The principal owners of the Applicant are Roderick McRae III and Peter James McRae.

MCM provides discretionary and non-discretionary investment management to separate account clients based on the individual needs of each client. MCM requires that each client complete a written investment advisory agreement to set forth the terms under which MCM shall manage the client account(s). In addition, MCM discusses with clients, specific investment objectives and/or restrictions, mutually agreed upon asset allocation between equities, fixed income, and money funds, and the types of investments that shall be held by the client. Clients may impose restrictions on their account based on specific securities, security type, or industry type, among others.

As of December 31, 2011, MCM managed \$223,132,991 on a discretionary basis and \$4,442,006 on a non-discretionary basis.

Fees and Compensation

Compensation is calculated and payable on a quarterly basis. Fees are generally billed at the beginning of each quarter and are often debited directly to the client's custody account in line with standing instructions from the client. Some clients receive an invoice for fees, rather than the fee being directly debited from their account. At the request of a client, MCM may directly debit or invoice a client for fees. Contracts do not have an expiration date, but may be cancelled by either party at any time. In any partial calendar quarter, the advisory fee will be pro-rated based upon the number of days that the account was open during the quarter. If an account is closed mid quarter, MCM will refund the client any pre-paid fees based on the number of days that the account was open during the quarter.

In the rare instances that a minor portion of a client's assets are invested in mutual funds, the client pays the fee designated by the fund as well as Applicant's advisory fee. Clients will incur brokerage and transaction costs, including commissions charged by the broker-dealer where the account is held. Please see the *Brokerages Practices* section starting on Page 6 for a discussion of our brokerage practices.

Applicant has a flexible fee schedule reflecting the differences in the size and composition of various accounts. Applicant's current fee schedule is 1% per annum on the first \$2,000,000 and .5% over \$2,000,000. This schedule has changed from time to time and may change in the future in light of general economic and industry conditions. MCM has, under some circumstances, negotiated different fee terms with certain clients which include a waiver of fees or reduction in fees. Clients are advised that lower fees for comparable services may be available from other sources.

The Applicant generally utilizes prices provided by our third-party portfolio management software company, Advent. Custodians may use a different pricing service, and there is a chance there can be a slight discrepancy. MCM will use the price that it believes to be most representative of the amount at which the security could be acquired or sold in a current transaction between willing parties in which the parties each acted knowledgeably and without compulsion.

The advisory fee for client accounts shall be charged on the asset value maintained in Advent as of the applicable billing date. In certain cases the actual assets under management may differ from the amount shown in Advent due to, among other things, interest earned on money market funds, amounts deposited, and amounts withdrawn.

Performance Based Fees and Side-by-Side Management

MCM does not charge any performance based fees. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to MCM.

Types of Clients

MCM primarily provides customized investment management services to individuals as well as pension and profit sharing plans, trusts, estates, charitable organizations, and corporations or other business entities.

Methods of Analysis, Investment Strategies and Risk of Loss

Applicant uses a wide variety of sources for information, foremost being the corporate reports and press releases themselves. In addition, newspapers, financial periodicals, economic services, Federal Reserve and other government publications, and research material prepared by investment bankers and brokerage firms are studied. Comments, releases and presentations of company managements, security analysts, economists and other observers of the financial markets are also carefully reviewed and considered.

Traditional methods of fundamental analysis are employed, including all pertinent factors relating to a corporation's management and financial strength, its competitive position and cost structure, and its research and new product and service development capacity. Applicant seeks to avoid excessive risk by emphasizing high-quality securities which applicant endeavors to purchase at attractive prices. Technical and charting techniques are employed, but play a minor role in investment decisions.

All of Applicant's investment strategies are tailored to meet the individual nature of the individual accounts. Income requirements, tax considerations, and the client's overall investment objectives are important variables in determining the appropriate strategy for each account. MCM's basic philosophy is to seek reasonable returns through an emphasis on long-term investments in high quality securities. Investing in securities involves the risk of loss that clients should be prepared to bear.

Taxable and tax-free bonds, as well as equities, are used to achieve the client's objectives. As a general rule, we do not seek trading results within a thirty (30) day time span. Under special circumstances, and in conjunction with the client's desires, we will recommend or use short sales, margin or option transactions where appropriate.

Disciplinary Information

MCM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Other Financial Industry Activities and Affiliations

MCM and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

Officers and employees of MCM may be investors in securities, which are purchased for client's portfolios. Clients are informed of this when they first become clients. However, officers and employees are not permitted to trade in any manner that would be in conflict with a client's interests.

Conflicts of interest are virtually absent, since most investments have a large number of outstanding shares and wide marketability; also, most securities are held for relatively long periods of time and the positions that any officer or employee might make are too small to affect the market to any significant degree. Each officer and employee is required to sign a statement to the effect that client's interests always take precedence over any personal transactions. Employee trading is reviewed by the CCO, or a designee, on a regular basis. Another officer reviews the CCO's trading activity.

To avoid any potential conflicts of interest involving personal trades, the Applicant has adopted a Code of Ethics (the "Code"), which includes a formal code of ethics and insider trading policies and procedures. Applicant's Code requires, among other things, that Employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of Applicant above one's own personal interests;
- Adhere to the fundamental standard that you should not take inappropriate advantage of your position;
- Avoid any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with this policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on yourself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve your professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

Applicant's Code also requires employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide the Applicant with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

A copy of Applicant's Code shall be provided to any client or prospective client upon request.

Brokerage Practices

MCM has been granted the authority by a substantial majority of its clients to determine, without specific consent, the securities to be bought or sold, the amounts of those securities, and the brokers or dealers utilized to affect those trades. Any limitations that might be placed on the Applicant are client specific. In selecting broker-dealers to be used in portfolio transactions, MCM's guiding principle is to seek to obtain the best overall execution on client transactions. MCM utilizes Fidelity Investments ("Fidelity") for substantially all of its client's brokerage transactions. Fidelity provides the Applicant with favorable commission rates. In addition to brokerage services, Fidelity provides MCM's clients with custodial, record-keeping, and research services. MCM, on a periodic and systematic basis, reviews its brokerage relationship with Fidelity to ensure that it is fulfilling its fiduciary duty to seek best execution on client transactions. Lower commission rates are available if MCM was to utilize an "execution only" broker. Broker research services received from Fidelity are useful in selecting investments for all of applicant's client portfolios.

A client may direct MCM to utilize a particular broker-dealer to execute some or all transactions for the client's account. In such circumstances, the client is responsible for negotiating the terms and arrangements for the account with that broker-dealer. MCM will not seek better execution services or prices from other broker-dealers or be able to aggregate the client's transactions, for execution through other brokers-dealers, with orders for other accounts advised or managed by MCM. As a result, MCM may not obtain best execution on behalf of the client, who may pay materially disparate commissions, greater spreads or other transaction costs, or receive less favorable net prices on transactions for the account than would otherwise be the case. In the event that a client is referred to MCM by a broker-dealer, MCM has a potential conflict between the client's interest in obtaining best execution and MCM receiving future referrals from the broker-dealer.

MCM does not currently maintain any formal soft dollar arrangements. However, Fidelity provides MCM with proprietary and third-party research and other products and services (i.e., receipt of duplicate trade confirmations and account statements, trading desk access, the ability to aggregate clients' securities transactions, the ability to directly debit advisory fees from clients' accounts, receipt of compliance publications, and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors). MCM has determined that it would obtain Fidelity's research and other products and services regardless of the amount of commissions it generates throughout the year. Therefore, MCM is not "paying-up" for Fidelity's proprietary and third-party research and other products.

MCM may use client cross transactions to reallocate securities among clients. A cross transaction occurs when MCM causes one client to sell a security to another client in an arms-length transaction. There are several reasons why a cross transaction may occur. One reason is that the selling client requires cash, and the buying client has cash and needs a particular

security. Clients that participate in cross transactions may incur a fee charged by the broker-dealer.

Occasionally, when there is a large volume of orders of the same security, but for different clients, MCM may aggregate these orders and make one execution as a block trade. The individual client is then allocated the stock on an average cost basis. MCM evaluates on a case by case basis whether the aggregation of trades is in the best interest of clients.

Review of Accounts

Each account is continually monitored by the investment officer assigned to it. This officer, a member of the Investment Committee, makes the investment decisions for the account. The Applicant has instructed each investment officer to review the account based on the client's objectives and overall policy mutually decided upon with the client at the start of the account. The Investment Committee, consisting of Roderick McRae, Roderick McRae III, and Peter J. McRae, meets at least weekly and as necessary. Changes in individual accounts are routinely made according to the investment policy established by the Investment Committee. Changes are sometimes made in the maturity schedule of bond holdings, buying or selling individual stocks, or changing the overall asset mix. The Investment Committee makes all investment decisions.

Clients receive a written valuation at the end of each calendar quarter. Some clients also receive these reports monthly. In addition, clients are notified by the broker of each transaction within 3-4 days of the transaction date and are provided with a summary of gains and losses for the year. Meetings are held during the year with most clients. Meetings typically include a review of transactions, portfolio performance, and current policy. Telephone conversations and correspondence keep the client apprised between meetings.

Client Referrals and Other Compensation

The Advisor does not directly or indirectly compensate any person for client referrals.

Custody

All clients' accounts are held in custody by unaffiliated broker-dealers or banks, but MCM can access many clients' accounts through its ability to debit advisory fees. For this reason MCM is considered to have custody of client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by MCM.

Investment Discretion

MCM has investment discretion over clients' accounts, including the amount and price of securities bought and sold, the preferred broker-dealer, and the commission rate. The discretionary authority granted to MCM is evidenced in the investment advisory agreement that

is executed by MCM and the client at the inception of the advisory relationship. Clients can place reasonable restrictions on MCM's investment discretion. For example, clients can request specific limitations on MCM's discretion over the broker-dealer used and impose investment restrictions on the account as discussed in the *Advisory Business* section of this brochure.

Voting Client Securities

Notwithstanding MCM's discretionary authority to make investment decisions on behalf of the client, McRae will not exercise proxy-voting authority over clients' securities. The obligation to vote client proxies shall at all times rest with the client. The client shall in no way be precluded from contacting the Applicant for advice or information about a particular proxy vote. However, MCM shall not be deemed to have proxy-voting authority solely as a result of providing such advice to the client.

Should McRae inadvertently receive proxy information for a security held in a client's account, McRae will immediately forward such information on to the client, but will not take any further action with respect to the voting of such proxy. Upon termination of its agreement with a client, MCM shall make a good faith and reasonable attempt to forward proxy information inadvertently received on behalf of the client to the forwarding address provided by the client to the Applicant.

With respect to class action lawsuits, MCM may assist clients, upon request, in completing proof of claim forms and mailing those forms to the claims administrator. MCM may also forward to client any information received or maintained regarding class action legal matters involving any security held in the account. For example, upon occasion MCM may provide a client with holding period information pursuant to a specific security involved in a class action matter.

Financial Information

MCM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. As such, the Applicant is not required to include a balance sheet for its most recent fiscal year.

MCM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.