

**Part 2A Form ADV Brochure**

**Item 1**

**BURROUGHS HUTCHINSON**

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This brochure provides information about the qualifications and business practices of Burroughs Hutchinson. If you have any questions about the contents of this brochure, please contact us at 208-343-7556, or [jill@bhinvest.com](mailto:jill@bhinvest.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.

Burroughs Hutchinson is an investment advisor firm registered with the Securities and Exchange Commission (SEC). Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about Burroughs Hutchinson is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

There have been no material changes since filing our Form ADV Part 2 on March 23, 2011. In the future, this item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new brochure as necessary based on material changes or new information, at any time, without charge.

Currently, our brochure may be requested by contacting Jill Wilson at 208-343-7556 or [jill@bhinvest.com](mailto:jill@bhinvest.com)

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

Burroughs Hutchinson (BH) provides investment clients with ongoing discretionary investment advisory services. We seek to add value through tactical asset allocation and careful security selection. Clients wishing to use the investment advisory services of BH sign an investment advisor contract. The contract describes the services provided to the client in return for the advisory fee stated on the agreement. BH has been in business since 1967; principal owner is Mark Matsko, President. As of 12/31/2011 BH had client assets under management in the amount of \$275,728,428.

#### **Item 5 - Fees and Compensation**

BH is compensated for their services by receiving a fee based on a percentage of the fair market value of assets under management. The value of the assets will be based on the last business day of each calendar quarter. The fees are payable in advance at the beginning of each calendar quarter. Clients may elect to be billed directly for fees or to authorize BH to directly debit fees from client accounts. The standard annual fees for investment management services are as follows:

Portfolio Market Value	Management Fee
First \$500,000	1.00%
\$500,000 - \$2,000,000	.75%
\$2,000,000 +	.60%

Fees may be waived or reduced for certain family or affiliated accounts. We reserve the right, under certain circumstances, to negotiate fees. Accounts initiated during a calendar quarter will be charged a prorated fee. The fee schedule may be amended by BH, in which case the client will receive thirty (30) days prior written notice. BH may terminate the advisory contract upon written notice to client. The client may terminate the advisory contract upon written or oral notice. In the event of termination, any unearned portion of the paid quarterly fee will be refunded.

BH's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Mutual funds and exchange traded funds may also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to BH's fee and BH shall not receive any portion of these commissions, fees, and costs.

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

BH does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Mark Matsko is the controlling shareholder, a director, and the President of BH. BH acts as investment advisor to the Talon Fund, L.P. The General Partner of the Partnership is Talon Capital Management, a sole proprietorship owned and controlled by Mark Matsko. Mr. Matsko is the only principal and/or employee of BH that makes investment decisions for the Fund. As such, he is entitled to a performance allocation from each Limited Partner equal to 10% of the profit otherwise allocable to the Limited Partner for the applicable measurement period. He may waive or reduce the performance allocation for any Limited Partner in any measurement period.

## **Item 7 - Types of Clients**

BH provides portfolio management services to individuals, high net worth individuals, IRAs, pension and profit sharing plans, charitable institutions, estates, trusts, foundations and corporations. In general, our minimum required account size is \$500,000. However, we do reserve the right to consider accounts of lesser size.

BH also acts as investment advisor to the Talon Fund, L.P. As the investment advisor BH is entitled to a quarterly asset-based management fee equal to .25% of each Limited Partner's share of partnership net capital (i.e. 1% annually).

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

### **Equities**

We take a bottom-up approach to our security selection that involves a blend of fundamental and technical analysis. Typically, we invest in U.S. exchange-traded companies with a market capitalization over \$2 billion that have been consistently profitable over the last five to eight years.

We set criteria based on various valuation metrics. At times we may be looking for a stock within a specific industry we feel is poised to out-perform with attractive fundamentals. Potential investments are compared within their industry, and companies we judge to have the best risk/reward profile are chosen for investment.

One way our firm manages the risk of investing in equities is through the use of call options. A call option is a contract that gives the buyer of the call the right to buy the underlying shares from the seller at pre-specified price (the strike) on, or before, a pre-specified date in the future (expiration). The buyer pays a price set by markets on an exchange (premium) to the seller of the call.

A Buy-Write strategy, also known as a covered call, is an investment strategy where the investor buys a stock and writes (or sells) call options that cover the stock position. The advantage of this strategy is that the option premium, which is received upfront, cushions the downside moves in an equity portfolio. The trade off, is that the upside potential of the

investment is capped if the option is exercised above the strike price. This strategy can be expected to outperform in all markets except for a strong bull market.

### **Fixed Income**

We use a combination of preferred securities, investment grade corporate bonds, government bonds, and taxable municipal bonds.

We do not turnover our bond portfolios or take large amounts of interest rate risk relative to the bench mark. Our performance comes from security and sector selection. We tend to implement a laddered portfolio for liquidity purposes and to offset the reinvestment risk of having a large amount of the portfolio mature at any one time.

We choose fixed income securities based on a client's investment policy, and search for bonds that meet their demands as well as our strategy. For all issuers, we consider the quality of their credit. We do not outsource any credit analysis work.

Investing in securities involves the risk of loss that clients should be prepared to bear. While we strive for superior positive performance, BH cannot guarantee any level of return.

### **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of BH or the integrity of BH's management. BH has no information applicable to this Item.

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

BH acts as investment advisor to the Talon Fund, L.P. Mark Matsko is the controlling shareholder, a director and the President of BH. The General Partner of the Partnership is Talon Capital Management, a sole proprietorship owned and controlled by Mark Matsko. Mr. Matsko is the only principal and/or employee of BH that makes investment decisions for the Fund.

The Partnership will hold an actively managed long/short securities portfolio consisting primarily of publicly traded equity securities. Its objective is to deliver consistent and uncorrelated total returns in any market environment with a moderate degree of risk. The Partnership may use leverage and short sales in its investments. There is no assurance that the Partnership will achieve its objectives; losses may occur. BH acts as investment advisor and is entitled to a quarterly asset-based management fee equal to .25% of each Limited Partner's share of partnership net capital (i.e. 1% annually). BH clients are not specifically targeted to invest in the Fund but may do so if they qualify.

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

BH has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to a prohibition on insider trading and personal securities trading procedures, among other things. All supervised persons at BH must acknowledge the terms of the Code of Ethics as amended.

The employees of BH are allowed to buy and sell securities and options, which BH also recommends to clients. The Code of Ethics policy diminishes the potential for a conflict, or perceived conflict, of interest. BH personnel have a continuing duty to consider and place the interest of all clients first. In any situation where the potential for conflict exists, transactions for clients will take precedence over personal transactions. No BH personnel shall take undue advantage of their position.

BH's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Jill Wilson.

### **Item 12 - Brokerage Practices**

BH has full discretion for all accounts in both the selection of securities and quantities to be bought and sold. Clients may establish a written investment policy and guidelines that will be followed by BH as specified. Investment restrictions placed on BH could adversely affect the account's performance. If a client does not designate a broker, part of our discretionary service also includes selecting the broker and negotiating commissions.

BH shall formulate trade allocations prior to execution except in cases when BH portfolio managers unexpectedly learn about investment opportunities and completing such written allocations proves unreasonable. In the event an order is partially filled, the allocation shall be made in the best interest of all clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, and client's liquidity needs. Allocations will be filled randomly in most cases.

BH typically aggregates trades whenever possible. Investment decisions are often made for accounts on a firm-wide level making trade aggregation the most reasonable execution method. It also helps ensure that no particular client is favored because all portfolios receive the same price. Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders; filled orders shall be allocated separately from subsequent orders. One exception is that subsequent orders may be aggregated with filled orders if

the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order shall receive the average price and subject to minimum ticket charges, pay a pro-rata portion of commissions.

Due to the nature of the bond market being an over-the-counter market, in most instances performing block transactions will provide best execution, including best price. This is due to the lesser liquidity of odd-lot (usually defined as less than \$1 million par) transactions in an over-the-counter market compared to an exchange-traded market. Therefore, in instances where we want to transact a certain security for multiple accounts, we will always give consideration to performing the transaction as a single block trade. The consideration is, of course, limited by custodial preferences of the participating accounts.

Instances in which client orders will not be aggregated include, but are not limited to, the following:

- Clients directing BH to use certain broker/dealers, in which case such orders shall be separately affected;
- Traders and/or portfolio managers determine that the aggregation is not appropriate because of market conditions.

BH negotiates all broker commissions. We may allocate our discretionary commissions to various brokerage firms in exchange for company, industry, and economic research. Also taken into consideration is best execution and availability of investment products. We have no obligation to execute transactions through any one broker. We will accommodate a client's request to direct their trade executions to a specified broker. However, clients who direct brokerage are advised they may forego any savings on execution costs that BH may obtain for other advisory clients since this impairs the ability to negotiate the commissions and volume discounts on batched orders for our clients. In addition to trading securities, BH maintains relationships with various brokerage firms for the purpose of providing internally prepared and third party research services including, but not limited to, industry and company research reports, periodic publications, economic analysis, conference attendance, conference calls and access to analysts. During the fiscal year 2010, fees have also been paid with soft dollar credits for 1) a service used for research and price quotations; and 2) a portfolio analysis and database information and order management systems. Our clients are not charged higher fees than our previous negotiated rate for this service. In addition, commissions generated by some clients may be used to acquire research for the benefit of other client's accounts. BH also implements a software trading application called Moxy, which is partially paid with soft dollar credits. Moxy is used to direct trading for all clients and, as such, all clients benefit from this service.

Clients may pay an additional "prime broker" fee in addition to commissions on trades executed through brokers other than the client's current custodian. Reasons to place a trade



away from the custodian may be, but are not limited to, available liquidity, off hours trading, average pricing of the trade, and soft dollar fulfillments.

BH generally recommends that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, to maintain custody of client assets and to effect trades for their accounts. It is ultimately the client's decision to custody assets with Schwab. BH is independently owned and operated and not affiliated with Schwab.

Schwab provides BH with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's client's assets are maintained at Schwab. Schwab's brokerage services include the execution of securities transactions, custody research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For BH client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to BH other products and services that benefit BH but may not benefit its client accounts. Many of these products and services may be used to service all or some substantial number of BH accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist BH in managing and administering client accounts include software and other technology that 1) provide access to client account data (such as trade confirmations and account statements; 2) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; 3) provide research, pricing and other market data; 4) facilitate payment of BH management fees from client accounts; and 5) assist with back-office functions, recordkeeping and client reporting.

Schwab also offers other services intended to help BH manage and further develop its business enterprise. These services may include information technology, regulatory compliance, and publications and presentations by an independent third party. Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to BH. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to BH. While as a fiduciary, BH endeavors to act in its clients' best interest, and BH's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to BH of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

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

The day-to-day supervision of each account is the responsibility of the respective portfolio manager and each account is reviewed on a continuous basis. As a result of assignment of client accounts to individual portfolio managers, implementation of investment decisions may not occur simultaneously. BH manages portfolios with the assistance of a portfolio modeling system. The model portfolio approach allows accounts the benefits of constant investment management while also taking into account client objectives, market risk and company circumstances. New information, whether it is from a company news release, economic news, political events, market conditions and/or client specific changes would trigger additional reviews.

Client portfolios are generated on a quarterly basis and reviewed with clients either in person or by mail. Information in the portfolio includes, but is not limited to: 1) portfolio summary; 2) portfolio appraisal; 3) purchase and sales; and 4) performance history by asset class. Annual realized gain/loss reports are provided for taxable accounts. Clients may also receive periodic newsletters, telephone and/or personal consultations.

Clients will receive monthly statements and confirmations of trading activity from their custodian.

Talon Fund clients receive a statement of partner capital on a monthly basis. A monthly newsletter that reviews the Fund's strategy along with the monthly and year-to-date returns will also be provided.

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

BH has an agreement with Becker, Chambers & Co. (BC), an account firm that may refer potential clients to BH. Upon sign-up and retention of new clients from BC, BH will pay BC twenty (20) percent of the annual fee on BC assets under management each year as earned, paid on a quarterly basis, for as long as BH manages the account. Advisor clients signed through BC will not be charged fees or costs greater than the fees or costs charged to advisory clients not introduced by BC and who have similar portfolios under management. Participation in this program may pose a potential conflict of interest. Our firm's duty of "best execution" is not eliminated by the participation. In the agreement with BC, upon signing a client, BH will help establish an account for the client at a brokerage firm with whom BH has institutional relationships. The client will receive institutional rates and commissions under the BH relationship.

### **Item 15 - Custody**

Clients will receive monthly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. BH urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 - Investment Discretion**

BH receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with any stated investment objections for the particular client account. Investment guidelines and restrictions must be provided to BH in writing.

### **Item 17 - Voting Client Securities**

BH votes proxies for all of its clients. It is the policy of BH to review each proxy item and to generally vote with management on routine matters affecting the future of the corporation.

Clients may direct the vote if they so desire either in writing or oral communication. Clients may call at any time requesting how their securities were voted. Clients may obtain a copy of our proxy voting policies and procedures upon request.

### **Item 18 - Financial Information**

Registered investment advisers are required in the Item to provide you with certain financial information or disclosures about BH's financial condition. BH has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding