

Portfolio Strategies, Inc.

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This brochure provides information about the qualifications and business practices of Portfolio Strategies, Inc. If you have any questions about the contents of this brochure, please contact us at (253) 383-1676 or davidj@portstrat.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 Portfolio Strategies, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

References herein to Portfolio Strategies, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

Item 2 Material Changes

Portfolio Strategies, Inc. (the “Registrant”) has established four separate mutual funds: the PSI Total Return Fund, the PSI Tactical Growth Fund, the PSI Strategic Growth Fund and the PSI Market Neutral Fund (collectively the “*Funds*”); since its last Annual Amendment filing. A complete description of the *Funds*, their strategies, objectives, and costs is set forth in the *Fund* prospectus, a copy of which is available from the Registrant upon request. Clients who invest in the *Funds* shall not pay a “dual” fee to the Registrant. Rather, the *Funds* will pay the Registrant an annual advisory fee of up to 1.00% of assets under management. **The Registrant’s Chief Compliance Officer, David Jajewski, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

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Item 4 Advisory Business

- A. Portfolio Strategies, Inc. is a corporation formed on December 14, 1982 in the State of Washington. The Registrant became registered as an Investment Adviser Firm in March, 1983. The Registrant is owned, in equal part, by John Williamson and David Jajewski. David Jajewski and John Williamson are the Registrant's Chief Executive Officer and Managing Partner, respectively.
- B. As discussed below, the Registrant offers to its clients (individuals, business entities, investment companies, pension and profit sharing plans, trusts, estates and charitable organizations, etc.) investment advisory services. The Registrant **does not** hold itself out as providing financial planning, estate planning or insurance planning services.

INVESTMENT ADVISORY SERVICES

The client can determine to engage the Registrant to provide discretionary investment advisory services on a *fee* basis. The Registrant's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under the Registrant's management, generally between 0.40% and 2.96%.

Registrant manages investment advisory accounts not involving Investment Supervisory Services. Each investment program managed by the Registrant has been devised to meet a particular investment strategy applicable to an individual client's investment objective(s). Each investment program is continuously managed based on the program's strategy, rather than based upon each client's individual needs. However, each client will have the opportunity to place reasonable restrictions on the types of investments to be held in his/her/its account.

Registrant offers investment programs using the following model portfolios: Index Plus Program, All Seasons Program, Dynamix Program, Global Macro Program, Market Neutral Program, Multi-Edge Program, Multi-Guard Program, Price History Program, Quantitative Balanced Program, Quantitative Growth Program, and the Guardian Portfolios (which contain a preset combination of PSI programs), Explorer Income, Explorer Balanced, Explorer Growth, Quantitative Income, Tactical Equity Blend, Absolute Return, Tactical MPT Conservative, Tactical MPT Moderate, Tactical MPT Growth each of which programs is more comprehensively discussed in the Registrant's program brochures which are provided to all prospective clients. Some program strategies are also available within specific variable annuities and 401 K programs obtained through various insurance companies and custodians. Due to trading restrictions and fund limitations imposed by certain custodians, some programs (Index Plus) may be substantially modified to meet these more stringent requirements, which may affect performance results. The modifications are solely a function of the custodian designated by the client, of which the client is made aware prior to participating in a particular program. These affected strategies are identified by the "II" following their name (Index Plus II).

Registrant's investment programs do not follow a buy-and-hold strategy but trade in-and-out of positions on a frequent basis (which could be two to three times a week). The strategies used by Registrant can incorporate the purchase of inverse index mutual funds and other mutual funds that invest in leveraged instruments, such as futures contracts and options on securities, both on a long and short basis. Because of this leverage, the value of

an individual program may fluctuate substantially from day to day. However, Registrant's goal in the use of these funds is to mitigate market exposure, thereby attempting to decrease overall program downside risk.

The Registrant also provides advisory services to the sponsors of “participant-directed” retirement plans established by the sponsors pursuant to Section 404(c) of ERISA. Section 404(c) permits a Plan participant to exercise control over the assets contained in his/her individual retirement account. Registrant provides the Plan sponsors with advice relative to the investment alternatives available for Plan participants to choose from. Among the investment alternatives that each plan sponsor may designate for their participants to choose from may include the above-referenced investment programs and/or unaffiliated mutual funds. In addition, if requested by the sponsor, the Registrant shall provide Plan participants with general impersonal informational seminars and/or materials which describe or explain the various investment options available to them under the Plan. Relative to the mutual fund investment management services that Portfolio Strategies (the Registrant) may provide to sponsors of retirement plans and/or its participants, the retirement plan platform provider, its related custodian, and other affiliates may receive 12b-1, shareholder service and/or administrative fees directly from the mutual fund sponsors that comprise the retirement portfolios. Portfolio Strategies (the Registrant) is not a party to any such arrangements and will not receive any portion of any such fees.

MISCELLANEOUS

Limited Consulting/Implementation Services. Although the Registrant does not hold itself out as providing financial planning, estate planning or accounting services, to the extent specifically requested by the client, the Registrant *may* provide limited consultation services to its investment management clients on investment and non-investment related matters, such as estate planning, tax planning, insurance, etc. Registrant shall not receive any separate or additional fee for any such consultation services. Neither the Registrant, nor any of its representatives, serves as an attorney, or accountant and no portion of the Registrant’s services should be construed as same. To the extent requested by a client, the Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, etc.), including representatives of the Registrant in their separate registered/licensed capacities as discussed below. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from the Registrant. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client’s responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant’s previous recommendations and/or services.

Please Note: Inverse/Enhanced Market Strategies. The Registrant may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding

index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be **no assurance** that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

Mutual Fund/Exchange Traded Fund Fees. In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, the client will also incur, relative to all mutual fund and exchange traded funds, charges imposed at the fund level (e.g. management fees and other fund expenses).

Sub-Advisory Arrangements. The Registrant may engage sub-advisors for the purpose of assisting the Registrant with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by the Registrant. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by the Registrant. The Registrant shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services. The Registrant's Chief Compliance Officer, David Jajewski, remains available to address any questions concerning the Registrant's sub-advisory arrangements.

Please Note: Cash Positions. At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), the Registrant may maintain cash positions for defensive purposes. All cash positions (money markets, etc) shall be included as part of assets under management for purposes of calculating the Registrant's advisory fee

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

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

Disclosure Statement. A copy of the Registrant's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement*.

- C. The Registrant shall provide investment advisory services specific to needs of each client. Prior to providing investment advisory services, an investment adviser representative will discuss with each client, their particular investment objective(s). The Registrant shall allocate each client's investment assets consistent with their designated investment objective(s). Clients may, at anytime, impose restrictions, in writing, on the Registrant's services.
- D. The Registrant does not participate in a wrap fee program.

- E. As of December 31, 2011, the Registrant had \$229,370,656 in assets under management on a discretionary basis.

Item 5 Fees and Compensation

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

INVESTMENT ADVISORY SERVICES

If a client determines to engage the Registrant to provide discretionary investment advisory services on a *fee* basis, the Registrant's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under the Registrant's management (generally between 0.40% and 2.96%) and the investment program selected by the client as follows:

All Seasons, Market Neutral, Price History, Quantitative Balanced, Quantitative Growth, Tactical Equity Blend, Tactical MPT Conservative, Tactical MPT Moderate, Tactical MPT Growth and Absolute Return

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$20,000 - \$500,000	2.50%
\$500,001 - \$1,000,000	2.25% (Total account at this percentage)
\$1,000,001 - \$1,500,000	2.00% (Total account at this percentage)
\$1,500,001 - \$2,000,000	1.75% (Total account at this percentage)
\$2,000,001 and above	1.60% (Total account at this percentage)

Index Plus, Dynamix, Global Macro, Multi-Edge, Multi-Guard, and all Combination Programs and Guardian Portfolios (except Guardian Conservative) Explorer Income, Explorer Balanced and Explorer Growth

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$20,000 - \$250,000	2.96%
\$250,001 - \$500,000	2.75% (Total account at this percentage)
\$500,001 - \$1,000,000	2.50% (Total account at this percentage)
\$1,000,001 - \$1,500,000	2.25% (Total account at this percentage)
\$1,500,000 and above	2.00% (Total account at this percentage)

Guardian Conservative Portfolio and Quantitative Income

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$20,000 - \$500,000	1.90%
\$500,001 - \$1,000,000	1.65% (Total account at this percentage)
\$1,000,001 and above	1.40% (Total account at this percentage)

- B. Clients may elect to have the Registrant's advisory fees deducted from their custodial account. Both Registrant's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures. In the limited event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. The Registrant shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter.

- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Registrant shall generally recommend that that a broker-dealer serve as the broker-dealer/custodian for client investment management assets. Broker-dealers charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). Please Note: If a client chooses to invest a portion of their portfolio in any of the Registrant's affiliated mutual funds, the Registrant will credit the client's account to offset the management fees associated with the affiliated mutual funds. A client who invests in the affiliated mutual funds will not incur an aggregate advisory fee in excess of 2.96%.
- D. Registrant's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. The Registrant generally requires an annual minimum asset level of \$20,000 for investment advisory services. However, Registrant, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

The *Investment Advisory Agreement* between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, the Registrant shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.

- E. **Securities Commission Transactions.** In the event that the client desires, the client can engage Registrant's representatives, in their individual capacities, as registered representatives of Centaurus Financial Incorporated ("*Centaurus*") and EDI Financial Incorporated ("*EDI*"), SEC registered and FINRA member broker-dealers, to implement investment recommendations on a commission basis. In the event the client chooses to purchase investment products through *Centaurus and/or EDI*, *Centaurus and/or EDI* will charge brokerage commissions to effect securities transactions, a portion of which commissions *Centaurus and/or EDI* shall pay to Registrant's representatives, as applicable. The brokerage commissions charged by *Centaurus and/or EDI* may be higher or lower than those charged by other broker-dealers. In addition, *Centaurus and/or EDI* as well as Registrant's Representatives, relative to commission mutual fund purchases, may also receive additional ongoing 12b-1 trailing commission compensation directly from the mutual fund company during the period that the client maintains the mutual fund investment.
1. **Conflict of Interest:** The recommendation that a client purchase a commission product from *Centaurus and/or EDI* presents a ***conflict of interest***, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Registrant's representatives. **The Registrant's Chief Compliance Officer, David Jajewski,**

remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.

2. **Please Note:** Clients may purchase investment products recommended by Registrant through other, non-affiliated broker dealers or agents.
3. The Registrant does not receive more than 50% of its revenue from advisory clients as a result of commissions or other compensation for the sale of investment products the Registrant recommends to its clients.
4. When Registrant's representatives sell an investment product on a commission basis, the Registrant does not charge an advisory fee in addition to the commissions paid by the client for such product. When providing services on an advisory fee basis, the Registrant's representatives do not also receive commission compensation for such advisory services (except for any ongoing 12b-1 trailing commission compensation that may be received as previously discussed). **However**, a client may engage the Registrant to provide investment management services on an advisory fee basis and separate from such advisory services purchase an investment product from Registrant's representatives on a separate commission basis.

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

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

Item 7 Types of Clients

The Registrant's clients shall generally include individuals, business entities, investment companies, pension and profit sharing plans, trusts, estates and charitable organizations. The Registrant generally requires an annual minimum asset level of \$20,000 for investment advisory services. However, Registrant, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

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

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

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

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

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

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

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

In addition to the fundamental investment strategies discussed above, the Registrant may also implement and/or recommend – short selling, use of margin, and/or options transactions. Each of these strategies has a high level of inherent risk. (See discussion below).

Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the

original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by the Registrant in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to the Registrant may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential ***conflict of interest*** whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to the Registrant. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by the Registrant shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by the Registrant is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Currently, the Registrant primarily allocates client investment assets among various mutual funds and/or exchange traded funds ("ETFs") (including inverse ETFs and/or mutual funds that are designed to perform in an inverse relationship to certain market indices), on a discretionary basis in accordance with the client's designated investment objective(s).

As disclosed above, the Registrant may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be **no assurance** that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts. (*See* Item 4 B).

Affiliated Mutual Funds. The Registrant also serves as the investment manager to the PSI Total Return Fund, the PSI Tactical Growth Fund, the PSI Strategic Growth Fund and the PSI Market Neutral Fund (the “*Funds*”), investment companies (mutual funds). A complete description of the *Funds*, their strategies, objectives, and costs is set forth in the *Fund* prospectus, a copy of which is available from the Registrant upon request. As investment manager to the *Funds*, Registrant shall have discretionary authority for the management of *Fund* assets. Pursuant to the terms of the *Investment Advisory Agreement* between the Registrant and the client, the Registrant shall have discretion to place client assets in various investments, including the *Funds*. However, the client shall not pay a “dual” fee to the Registrant (i.e., an investment management fee to the Registrant pursuant to the terms of the *Investment Advisory Agreement* between the Registrant and the client and a mutual fund investment management fee paid by the *Funds* to the Registrant which is based on the client’s assets invested in the *Funds*). Rather, the *Funds* will pay the Registrant an annual advisory fee of up to 1.00% of assets under management. The Registrant will in turn credit each *Fund* shareholder’s proportionate share of the fees that it receives from the *Funds* against the management fee charged by Registrant clients. Clients will receive the fee offset only during times when their assets are actually invested in the *Funds*. At other times, the full management fee will be assessed. **The Registrant’s Chief Compliance Officer, David Jajewski, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

Registrant’s asset allocation strategies have been designed to comply with the requirements of Rule 3a-4 of the Investment Company Act of 1940. Rule 3a-4 provides similarly managed investment programs, such as Registrant’s asset allocation programs, with a non-exclusive safe harbor from the definition of an investment company. In accordance with Rule 3a-4, the following disclosure is applicable to Registrant’s management of client assets:

1. **Initial Interview** – at the opening of the account, the Registrant, through its designated representatives, shall obtain from the client information sufficient to determine the client’s financial situation and investment objectives;
2. **Individual Treatment** - the account is managed on the basis of the client’s financial situation and investment objectives;
3. **Quarterly Notice** – at least quarterly the Registrant shall notify the client to advise the Registrant whether the client’s financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of the account;
4. **Annual Contact** – at least annually, the Registrant shall contact the client to determine whether the client’s financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of the account;
5. **Consultation Available** – the Registrant shall be reasonably available to consult with the client relative to the status of the account;
6. **Quarterly Report** – the client shall be provided with a quarterly report for the account for the preceding period;
7. **Ability to Impose Restrictions** – the client shall have the ability to impose reasonable restrictions on the management of the account, including the ability to instruct the Registrant not to purchase certain mutual funds;

8. No Pooling – the client’s beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the account;
9. Separate Account - a separate account is maintained for the client with the Custodian;
10. Ownership – each client retains indicia of ownership of the account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

The Registrant believes that its annual investment management fee is reasonable in relation to: (1) the advisory services provided under the *Investment Advisory Agreement*; and (2) the fees charged by other investment advisers offering similar services/programs. However, Registrant’s annual investment management fee may be higher than that charged by other investment advisers offering similar services/programs. In addition to Registrant’s annual investment management fee, the client will also incur charges imposed directly at the mutual and exchange traded fund level (e.g., management fees and other fund expenses). **Please Note:** Registrant’s investment programs may involve above-average portfolio turnover which could negatively impact upon the net after-tax gain experienced by an individual client in a taxable account.

Item 9 Disciplinary Information

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

Item 10 Other Financial Industry Activities and Affiliations

- A. **Registered Representative of Centaurus and EDI.** As disclosed above in Item 5.E, certain of Registrant’s Principals are also registered representatives of Centaurus Financial Incorporated (“*Centaurus*”), and EDI Financial Incorporated (“*EDI*”) FINRA member broker-dealers.
- B. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

C.

Broker Dealer. As disclosed above in Item 5.E, Registrant’s Principal and certain Associated Persons, are registered representatives of *Centaurus* and *EDI*, FINRA member broker-dealers. Clients can choose to engage Registrant’s Principal and/or Associated Persons, in their individual capacities, to effect securities brokerage transactions on a commission basis.

Conflict of Interest: The recommendation by Registrant’s Principals, that a client purchase a securities commission product presents a *conflict of interest*, as the receipt of commissions may provide an incentive to recommend investment products based on commissions received, rather than on a particular client’s need. No client is under any obligation to purchase any commission products from Registrant’s Principals. **The Registrant’s Chief Compliance Officer, David Jajewski, remains available to address any questions that a client or prospective client may have regarding the above conflicts of interest.**

Affiliated Mutual Funds. As discussed above in Item 8.C, the Registrant also serves as the investment manager to the PSI Total Return Fund, the PSI Tactical Growth Fund, the PSI Strategic Growth Fund and the PSI Market Neutral Fund (the “Funds”), investment companies (mutual funds). Pursuant to the terms of the *Investment Advisory Agreement* between the Registrant and the client, the Registrant shall have discretion to place client assets in various investments, including the *Funds*. **Please Note:** The client shall not pay a “dual” fee to the Registrant (i.e., an investment management fee to the Registrant pursuant to the terms of the *Investment Advisory Agreement* between the Registrant and the client and a mutual fund investment management fee paid by the *Funds* to the Registrant which is based on the client’s assets invested in the *Funds*). **The Registrant’s Chief Compliance Officer, David Jajewski, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

Licensed Insurance Agents. Certain of the Registrant’s representatives, in their individual capacities are licensed insurance agents. Neither the Registrant nor any of its representatives holds out to the public that clients may purchase insurance commission products from any of the Registrant’s representatives.

- D. The Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

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

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

- B. The Registrant or any related person of Registrant **may** recommend, buy, or sell for client accounts, securities in which the Registrant or any related person of Registrant has a material financial interest, including but not limited to the affiliated mutual funds described in Item 4.B.
- C. The Registrant and/or representatives of the Registrant *may* buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of the Registrant’s clients) and other potentially abusive

practices.

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

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

Item 12 Brokerage Practices

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

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

that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Soft Dollar Arrangement

In return for effecting securities transactions through a designated broker-dealer/custodian, Knight Capital Group, Inc, Registrant may receive certain investment research products or services which assist the Registrant in its investment decision making process for the client pursuant to Section 28(e) of the Securities Exchange Act of 1934 (generally referred to as a “soft-dollar” arrangement). Investment research products or services received by Registrant may include, but are not limited to, analyses pertaining to specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications, portfolio management systems, and statistical and pricing services. Although the commissions paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. Although the investment research products or services that may be obtained by Registrant will generally be used to service all of Registrant's clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. With respect to investment research products or services obtained by the Registrant that have a mixed use of both a research and non-research (i.e., administrative, etc.) function, Registrant shall make a reasonable allocation of the cost of the product or service according to its use - the percentage of the product or service that provides assistance to the Registrant's investment decision-making process will be paid for with soft dollars while that portion which provides administrative or other non-research assistance will be paid for by the Registrant with hard dollars. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management fee.

Research and Additional Benefits

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

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

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

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

2. Although the Registrant may receive client referrals from broker-dealers, the Registrant has not entered into an agreement with, nor does it recommend or select broker-dealers to/for its clients in return for client referrals from any particular broker-dealer.
3. The Registrant does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

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

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

- B. To the extent that the Registrant provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders

been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

Item 13 Review of Accounts

- A. Program reviews are conducted on an ongoing basis by Registrant's Principals. The Registrant primarily manages accounts referred to it by unaffiliated broker-dealers and investment advisers, pursuant to which the Registrant generally pays a portion of its management fee to the referring broker-dealer or investment adviser in accordance with the parameters of SEC Rule 206(4)-3. The referring broker-dealers and investment advisers generally maintain both the initial and ongoing day-to-day relationship with the client, including initial and ongoing determination of client suitability for the Registrant's designated strategies. All investment supervisory clients (directly or through their financial services professional) are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon.
- B. The Registrant *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a periodic report summarizing account activity and performance.

Item 14 Client Referrals and Other Compensation

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

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

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

- B. The Registrant is routinely engaged by new clients who have been solicited on behalf of the Registrant by unaffiliated individuals. If a client is introduced to the Registrant by either an unaffiliated or an affiliated solicitor, Registrant generally will pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from the Registrant's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to the Registrant by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of the Registrant's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between the Registrant and the solicitor, including the compensation to be received by the solicitor from the Registrant.

Item 15 Custody

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

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

Item 16 Investment Discretion

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

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

Item 17 Voting Client Securities

- A. The Registrant does not vote client proxies except for proxies solicited by issuers of securities owned by the PSI Total Return Fund, the PSI Tactical Growth Fund, the PSI Strategic Growth Fund and the PSI Market Neutral Fund. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Registrant to discuss any questions they may have with a particular solicitation.

Item 18 Financial Information

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

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