

## **Item 1. Cover Page**

### **PART 2A of FORM ADV**

## **Charlesworth & Rugg, Inc.**

20750 Ventura Boulevard, Suite 420  
Woodland Hills, California 91364  
Phone: (818) 340-0157  
Facsimile: (818) 702-8851

Website: [www.CharlesworthRugg.com](http://www.CharlesworthRugg.com) or [www.CharlesworthandRugg.com](http://www.CharlesworthandRugg.com)

**February 29, 2012**

Donald D. Rugg, Ph.D., President  
Email: [drugg@crugg.com](mailto:drugg@crugg.com)

Jonathan Rugg, CFA, Vice President  
Email: [jrugg@crugg.com](mailto:jrugg@crugg.com)

**This brochure provides information about the qualifications and business practices of Charlesworth & Rugg, Inc. If you have any questions about the contents of this brochure, please contact us at (818) 340-0157. 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.**

**Charlesworth & Rugg, Inc. is a registered investment adviser. However, being a registered investment adviser does not imply a certain level of skill or training and does not guarantee investment performance.**

**Additional information about Charlesworth & Rugg, Inc. 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 to this Brochure since last year's filing dated March 29, 2011.

### Item 3. Table of Contents

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## **Item 4. Advisory Business**

Since 1976, Charlesworth & Rugg, Inc. has provided continuing advice to clients with respect to the purchase and sale of no-load or load-waived mutual funds, and the sale of a new client's existing securities. Donald D. Rugg, Ph.D. is the principal owner (100%) of Charlesworth & Rugg, Inc. In most cases, our firm is given a limited authority to direct a custodian designated by the client, normally a discount brokerage firm, bank trust department, or trust company, to invest client assets into securities which we select. In some cases, clients give us limited investment authority to allocate assets under our supervision among funds in one or more specific families of funds. Finally, a client may engage us to provide investment advice on a non-discretionary basis, with the client making all investment decisions for the account. As of February 29, 2012, Charlesworth & Rugg, Inc. manages client assets in the amount of \$82,306,007 on a discretionary basis and \$3,551,400 on a non-discretionary basis. As of February 29, 2012, regulatory assets for Charlesworth & Rugg, Inc. were in excess of \$90,000,000.

Regardless of the type of investment advisory service we provide, we tailor our advice to the individual needs of clients. Client portfolios are monitored and transactions are effected or recommended in accordance with the previously determined investment objective of each client. We ask clients to provide us with important background information such as the other assets and investments they may own, and the nature and extent of their relevant personal and family circumstances. On occasion, clients may impose restrictions on the purchase or sale of certain securities. We rely upon written notification from clients whenever important changes occur in this background information.

Occasionally our firm (Dr. Rugg specifically) may be asked to present lectures on investments or economics, to evaluate individual securities, markets or industries or to evaluate other factors related to the valuation, timing and selection of securities or other assets. Charlesworth & Rugg, Inc. does not provide financial planning services, nor do we recommend buying or selling specific insurance policies, real estate, tax shelters or other securities that may be a legitimate component of an individual's total financial portfolio. Instead, we limit our advice to the activities mentioned previously.

Certain clients ask our firm to manage a specific portfolio to achieve certain objectives without divulging (for various reasons) their complete list of financial assets and investments or other relevant personal or financial circumstances. The services provided to these clients are identical to those mentioned above, as are all fees and termination privileges.

## **Item 5. Fees and Compensation**

A regular semi-annual fee is payable in advance at the rates indicated below based upon the market value of the investment capital under our supervision, including cash or its equivalent held for investment, as appraised by our firm at the beginning of each semi-annual review period. Fees are the same for each type of advisory service described in Item 4 above (consulting services fees are stated separately below).

For clients with an Aggressive, Growth or Growth with Income investment objective, the fees charged are based upon the following rate schedule:

<u>AMOUNT</u>	<u>SEMI-ANNUAL FEE</u>
<u>Under \$2,000,000:</u>	
For the first \$200,000	1%
For the next \$200,000	3/4%
For the next \$1,600,000	1/2%
<u>Over \$2,000,000:</u>	
For the first \$2,000,000	1/2%
For the next \$3,000,000	3/8%
For the next \$5,000,000	1/4%
<u>Over \$10,000,000:</u>	Negotiable

The fees charged for clients with an Income objective are based upon the following schedule:

For the first \$5,000,000	3/8%
For amounts over \$5,000,000	3/16%

Fees for the first semi-annual period are not payable until two weeks have elapsed from the signing of our agreement and for subsequent semi-annual billing periods, until two weeks have elapsed from the beginning of each new period. Invoices may be sent directly to clients, or if the client prefers, to the custodian or broker selected for the account.

Under special circumstances, and at our discretion, the fees charged to certain charitable or non-profit organizations or to employees of these organizations may be reduced. In addition, at our discretion, fees may be reduced for accounts that are used primarily to pay for college tuition and expenses. Finally, at our discretion, fees charged to certain clients who have become disabled or incapacitated may also be reduced.

Charlesworth & Rugg, Inc. may manage accounts for principals or employees of Charlesworth & Rugg, Inc. and accounts for immediate family members of both principals or employees of Charlesworth & Rugg, Inc. Fees for any or all of these clients may be reduced or waived at our discretion.

The fees charged by Charlesworth & Rugg, Inc. may be more or less than those charged by other investment advisers for similar services. Further, clients can purchase fund shares and other securities directly, without our services, through entities that are not affiliated with us. It is also important to understand that every mutual fund also charges management fees and incurs other costs and expenses that are passed through to fund shareholders (and ultimately borne by clients whose assets are invested in such funds). In addition, custodians and broker-dealers typically impose a commission, mark-up/down or other transaction fee effecting transactions in securities (including no-load or load-waived mutual funds). (See Item 12, Brokerage Practices for more information.) All of these fees, costs and expenses are in addition to the fees paid to us and we do not waive our fees proportionally to offset these fees, costs and expenses, unless we are required by law to do so.

Charlesworth & Rugg, Inc. does not receive 12b-1, revenue sharing, administrative or other fees from mutual funds or their service providers.

Our investment advisory agreements generally may be terminated by either the client or by Charlesworth & Rugg, Inc. upon not less than thirty (30) days' written notice of such termination. Charlesworth & Rugg, Inc. may choose to waive the advance notice requirement upon written request by the client. Any pre-paid management fee will be refunded pro-rata from commencement of the billing period to the date of termination.

Fees for all financial and economic consulting services are \$750.00/hour payable within ten (10) days after services have been rendered.

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

Charlesworth & Rugg, Inc. does not charge performance-based fees. Our fees are described in Item 5, Fees and Compensation.

## **Item 7. Types of Clients**

Charlesworth & Rugg, Inc. provides investment advisory services to a variety of clients, such as corporations, partnerships, individual investors, trusts, foundations, retirement plans, retirement plan participants, 401K plans and other tax-exempt entities.

The initial minimum dollar amount of assets is \$1,000,000. We may make exceptions to this at our discretion. For example, we may make an exception if a newly-established client account has an initial balance under \$1,000,000 but is expected to exceed this amount within a reasonable period of time (e.g., due to additional contributions). Other examples include special circumstances, such as charities and their employees, disabled persons, retirement plans, and retirement plan participants. In addition, at our discretion we may waive the minimum account size requirement for principals and employees of Charlesworth & Rugg, Inc. and for members of their immediate families.

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

### **OVERVIEW**

The investment methods of analysis and investment strategies employed at Charlesworth & Rugg, Inc. may be divided into the following five categories:

- Defining Investment Objectives
- Asset Allocation
- Selecting No-Load and Load-Waived Mutual Funds

- Portfolio Diversification
- Managing the Portfolio Over Time

### **Defining Investment Objectives**

The first step in our investment process is to assist the client in selecting an investment objective for the portfolio. During this process, clients are encouraged to review their overall personal and financial needs. This, in turn, requires clients to review their specific income needs, growth objectives, risk tolerance, tax circumstances and other factors. Based upon this analysis, each client then selects a specific investment objective from the following alternatives:

#### Aggressive

Aggressive investors seek rapid growth of capital and are willing to accept above average risk with minimal income.

#### Growth

Growth investors seek higher than average long-term capital appreciation with some income, and are willing to accept moderate levels of risk.

#### Growth with Income

Growth with Income investors seek a combination of income, capital preservation and moderate growth.

#### Income

Income investors seek a relatively high yield and more price stability by purchasing a higher percentage of income-producing investments.

Some clients select an objective midway between the above referenced categories. We refer to these objectives as Aggressive/Growth, Growth/Growth with Income and Income/Growth with Income.

Although each account is placed into one of these seven broad categories, we manage individual portfolios based upon the special needs and circumstances of each client. Clients, within the same investment objective will seldom, if ever, have the exact same funds in exactly the same proportions. Client portfolios, for any of the above objectives, are managed in accordance with the process described in the remainder of this section.

There is no guarantee that a client will achieve the client's chosen investment objective for the portfolio.

### **Asset Allocation Decisions**

We believe investing in today's volatile markets requires a sophisticated and flexible approach. We also believe that a successful investment strategy not only requires diversification but also the flexibility to shift assets to a more defensive position during periods of anticipated market weakness. To assist us in seeking to identify periods of market strength and weakness, we conduct research with the goal of identifying major turning points in financial markets.

Our approach to asset allocation and the timing of investment decisions begins with three basic analyses. First, for a long-term perspective, we examine the socio-economic, demographic, political, institutional and inflationary trends that underlie the United States and world economies. This analysis seeks to provide us with insights into the long-term potential of the market and the relative attractiveness of different types of investments. Second, we review current monetary and credit conditions. Finally, we monitor certain fundamental and technical indicators that we believe may help us identify potential

market trends. These indicators measure such things as investor psychology, corporate profits and market cycles.

Please realize that no indicator or combination of indicators can assure the successful identification of future market trends. When viewed in the broader context of underlying U.S. and global economic, financial, demographic and political environments, it is hoped that these indicators provide useful insights into both domestic and foreign markets.

We also employ many analytical techniques, models and graphs to help us better understand domestic and international stock, bond and currency markets. This research, in turn, assists us in making both asset allocation and fund selection decisions for client portfolios. Again, no analytical tool, model or graph can assure the attainment of any investment objective or the avoidance of losses.

Based upon this research, and information obtained from many articles, newsletters, and papers, we seek to adjust the allocation of client portfolios with the goal of capitalizing during important market advances and preserving capital during significant declines. In this way we seek to achieve favorable real rates of return (after inflation) while striving to limit risks to a level consistent with each client's chosen investment objective. Although this approach is believed to be sound, neither Charlesworth & Rugg, Inc. nor any other investment advisor can guarantee future performance results, the avoidance of tax liabilities or the attainment of any desired level of risk.

Asset allocation decisions involve changing mutual fund holdings between funds that invest in different types of securities. An example of an asset allocation decision that may be made by Charlesworth & Rugg, Inc. is between funds that invest in equity versus fixed income securities. Another example of an asset allocation decision is between funds that invest in securities domiciled in domestic or foreign countries. We may also change the allocation between funds that are classified by the different styles, sectors or objectives.

Please realize that, by design, asset allocation decisions will normally differ for portfolios with different investment objectives. Also, since portfolios are managed individually, the precise asset allocation for different portfolios with the same investment objective may also differ. In fact, it is unlikely that portfolios with the same objective will have the exact same asset allocation.

### **Selecting an Initial Portfolio of No-Load or Load-Waived Mutual Funds**

For each client, we strive to develop a diversified portfolio consisting of no-load or load-waived mutual funds. A typical client portfolio contains from ten to twenty funds which, when taken as a group, are designed, in our view, to meet the client's individual needs and circumstances.

At Charlesworth & Rugg, Inc., we have developed proprietary models that assist us in screening updated information on a large number of no-load or load-waived mutual funds. By applying models, we seek to screen our databases of available funds with the goal of identifying:

- Funds which, when combined into a portfolio, may help achieve the specific investment objective of each client.
- Funds which, we believe, have the potential to produce superior risk-adjusted performance and performance consistency.
- Funds that meet additional quantitative and qualitative tests that help determine each fund's desirability and its potential for future performance.
- Funds with relatively low operating expense ratios.



These considerations, as well as others discussed in this section, assist us in selecting mutual funds for client portfolios.

At Charlesworth & Rugg, Inc. we also restrict investments to mutual funds that avoid all but the smallest 12b-1 fees. In addition, to avoid certain potential conflicts of interest, we never accept any 12b-1 payments or any other kind of payment from any mutual fund or broker.

We normally limit our investment universe to those mutual funds that have a clearly defined objective and a history of relatively consistent adherence to this objective. We consider the quality of fund management, expense ratios, risk levels, the size of the fund, its current cash flow characteristics and present and past performance. The precise selection techniques we utilize vary with the type of mutual fund and with the volatility of each fund.

We may select or recommend virtually any fund available to our clients for inclusion in client portfolios. Funds themselves may invest in a wide variety of securities in accordance with various investment styles, industry sectors, geographic areas or security types. For example, funds might invest in exchange-listed securities, securities traded over-the-counter, foreign issuers, warrants, corporate debt securities, municipal securities, U.S. Government securities and options contracts on securities. These funds may also invest in commercial paper, certificates of deposit, commodities, derivatives, futures contracts, or options on futures contracts, as well as other types of securities. In addition, funds may invest from time to time in other funds. As a result, funds may be subject to a variety of investment risks, such as stock market risk, business risk, interest rate risk, credit risk, foreign investment risk, currency risk, derivatives risks, geographic risks, diversification risk, political risk, liquidity risk, inflation risk, and industry concentration risk.

Once funds have been identified using the above process, Dr. Rugg uses his judgment to select individual mutual funds for client portfolios. Most fund selection decisions and recommendations are also reviewed by Jonathan Rugg, Vice President of Charlesworth & Rugg, Inc. Our goal is to select funds with an investment philosophy likely to benefit from the above referenced socio-economic, political, institutional, financial, demographic and other trends that underlie the United States and world economies.

Note, however, that past performance is no guarantee of future performance.

The information used by Charlesworth & Rugg, Inc. in formulating investment strategies may include materials prepared by funds, various U.S. Government publications and information derived from personal interviews with fund managers. In addition, various software programs, fund databases, real-time data services and information generated by our own proprietary models may be used to assist in formulating investment strategies.

### **Portfolio Diversification**

We seek to limit risk by selecting a portfolio of no-load and load-waived funds that invest in individual securities that are normally diversified across asset categories, industries, sectors, styles of money management, investment objectives and countries of the world.

A more detailed discussion of our approach to portfolio diversification follows. Please note that we discuss:

- Diversification across asset classes,
- Diversification within an asset class,
- Diversification by investment style,
- Diversification by investment objective, and
- Global diversification.

#### Diversification Across Asset Classes

We typically diversify client portfolios into no-load and load-waived funds that invest in securities contained within different asset classes. The final mix of equity, bond, and money market funds contained within client portfolios is determined using proprietary models, various analytical tools and the judgment of both Dr. Rugg and Jonathan Rugg.

#### Diversification Within an Asset Class

Client portfolios are also diversified through purchasing a mix of no-load and load-waived funds containing securities invested across sectors, industries, issues, and additionally, for bond funds, across varying maturities.

#### Diversification by Investment Style

We seek to reduce the risk of investing in no-load and load-waived funds holding securities within a given asset class (e.g., equity funds) by diversifying across different styles of money management. For example, equity fund managers may employ different investment “styles” by focusing their investments into certain types of securities, e.g.:

- Defensive stocks
- Cyclical stocks
- Stocks with relatively stable earnings growth rates
- High-yield stocks
- Interest sensitive stocks
- Small company growth stocks
- Large company stocks
- Etc.

Many other styles also exist, each employing a particular strategy for selecting stocks and/or bonds. Styles of equity management vary considerably, as do the associated risk and historical performance results.

#### Diversification by Investment Objective

When appropriate, we may further diversify client portfolios by selecting no-load and load-waived mutual funds that employ different investment objectives, such as conservative growth, moderate growth and aggressive growth. We believe that this process helps balance the overall risk exposure of a client portfolio with the investment objective selected by the client.

#### Global Diversification

We may also hold no-load and load-waived mutual funds that invest in foreign securities. In doing so, we seek to identify opportunities that may exist or develop in various countries, regions or currencies

with the goal of enhancing investment returns and/or limiting risk in client portfolios. However, no assurances can be made regarding future rates of return or country, currency or overall risk levels for any portfolio that is diversified internationally.

### **Managing the Portfolio Over Time**

The specific investment approach followed by Charlesworth & Rugg, Inc. is to first construct a portfolio of funds designed to seek to achieve the specific investment objective selected by the client. Over time, we may purchase or sell fund shares (or other existing portfolio securities) with the goal of enhancing the overall risk-adjusted performance of the client's portfolio.

The management of client portfolios is a dynamic process. We monitor current fund holdings and seek to upgrade to funds that we believe are more attractive whenever existing funds no longer meet specific risk, expected performance and other fund selection criteria. Overall portfolio allocation adjustments may be made when, in our opinion, changing market conditions warrant a shift in the allocation of client assets across domestic and international equity, bond and money market funds.

We monitor the mutual funds held in client portfolios on a daily basis and review client accounts monthly. Special reviews may also be initiated whenever significant fundamental or technical developments occur, or when important new information is released.

The allocation of client accounts among mutual funds that invest in domestic and international equity, bond, and money market funds, is reviewed on a weekly and monthly basis. As was mentioned earlier, the overall allocation of client portfolios may be adjusted from time to time based upon many factors we believe to be relevant, such as changes or anticipated future changes in any of the following:

- Economic, financial and market trends.
- Relative valuation levels between asset classes.
- Government legislation, regulations or tax laws.
- Technical condition of individual mutual funds or broad financial market indices.
- Other factors such as evolving demographic trends or changes in the international environment.

We normally adjust client portfolios in response to changes or anticipated future changes sequentially rather than all at once.

### **RISK OF LOSS**

As was mentioned previously, a typical portfolio holds from ten to twenty funds. It is important for every client to understand that buying and selling fund shares and other securities, and changing the asset allocation of a client portfolio, entails the risk of loss which clients should be prepared to bear. Also, some investment decisions or recommendations may result in profits and others in losses. It is also important for each client to understand that Charlesworth & Rugg, Inc. cannot assure the attainment of the client's chosen investment objective. In addition, transacting in fund shares may also result in an increase or a decrease in the tax liabilities for taxable clients and an increase in transaction costs.

In addition to the risks associated with changing from one fund to another fund, there are also many underlying risks that may impact the mutual funds contained within client portfolios. These risks include, but are not limited to, the following:

- Risks associated with changing socio-economic, demographic, and political conditions within the United States and throughout the world.
- Risks resulting from changes in public policies, regulations, laws, international developments and technology.
- Risks attributable to fluctuations in inflation rates, interest rates, exchange rates and other variables.
- Risks associated with the ongoing viability, functioning and liquidity of financial markets, individual financial instruments and financial institutions – including the brokers, custodians and transfer agents associated with the mutual funds that comprise client portfolios.
- Risks attributable to the changing business and operating conditions that influence the companies and government entities responsible for issuing individual securities, which, in turn, are held by mutual funds.
- Other risk factors.

The above list of risk factors is not intended to be exhaustive but simply is to illustrate the many underlying risks that may impact the securities held within the mutual funds contained within client portfolios.

## **Item 9. Disciplinary Information**

Charlesworth & Rugg, Inc. is not involved in any legal or disciplinary events.

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

Charlesworth & Rugg, Inc. does not have any other financial industry activities or affiliations.

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

Principals of Charlesworth & Rugg, Inc. may make investments for their own accounts, for family accounts, or for the accounts of other clients that are the same as, different from, inconsistent with or in conflict with those made for, or recommended to, clients. Employees of the firm may also make investments for their own accounts that are the same as, different from, inconsistent with or in conflict with those made for, or recommended to, client accounts. Personal investments made by principals and employees of Charlesworth & Rugg, Inc. may involve securities that cannot be purchased or sold by Charlesworth & Rugg, Inc. for, or recommended to, client accounts. Normally, the investment universe for our clients is limited to no-load or load-waived mutual funds.

In the event that Charlesworth & Rugg, Inc. purchases or sells for a client (or recommends to a client) a particular security (other than mutual fund shares) during a given trading day, principals and employees of this firm may not purchase the same security for their personal accounts during that same trading day. We believe that permitting principals and employees to do so would invite the opportunity for principals and employees to place their interests before the interests of clients and potentially benefit from a personal securities transaction to the detriment of clients.

With respect to mutual fund shares, principals and employees of Charlesworth & Rugg, Inc. may invest and trade in shares of the same mutual funds that may be purchased or sold for, or recommended to, clients. Personal transactions made by principals and employees in shares of these funds are not restricted. We believe that such transactions do not present a conflict of interest or the appearance of one because all mutual fund transactions effected on a particular day are effected at the fund's net asset value, as calculated by the fund, for that day.

If a client transfers securities (other than mutual fund shares or U.S. Government bonds) to his or her managed account at Charlesworth & Rugg, Inc. which are also held by one or more principals or employees of Charlesworth & Rugg, Inc. at the time of the transfer, the principal or employee holding these securities may not sell them (or any related securities) on the same day they are sold for the client. In addition, principals and employees may not buy more of such securities (or related securities) so long as they are held in any account managed by Charlesworth & Rugg, Inc. We believe that permitting principals and employees to do so would invite the opportunity for principals and employees to place their interests before the interests of clients and potentially benefit from a personal securities transaction to the detriment of clients.

Charlesworth & Rugg, Inc. has implemented a Code of Ethics, which incorporates the above prohibitions and restrictions. The Code of Ethics serves to establish a standard of business conduct for our principals and employees. The Code also includes policies and procedures reasonably designed to prevent the misuse of material non-public information by our principals and employees. The Code of Ethics is monitored and enforced by the firm's Chief Compliance Officer.

Copies of our Code of Ethics, which includes our insider trading policies and procedures, are available to clients and prospective clients upon request.

## **Item 12. Brokerage Practices**

If a client seeks our assistance in selecting a broker, we normally recommend two that appear to offer a competitive combination of service, trading opportunities and commission rates. The final choice of broker is left to the client or to the custodian handling client assets. Under certain circumstances, the client may direct Charlesworth & Rugg, Inc. to a particular broker or to a custodian that may, in turn, select a broker to execute transactions.

If Charlesworth & Rugg, Inc. can negotiate a lower than normal commission schedule with a custodian broker, the benefits are passed along to our clients. The transaction charges paid by clients of Charlesworth & Rugg, Inc. to their broker for buying or selling fund shares may be either higher or lower than those charged by other brokers.

When Charlesworth & Rugg, Inc. obtains direct or third party research reports from one or more of the brokers used by our clients, such research normally consists of economic or financial data, electronic quotations or specific research reports -- information that typically accrues to the benefit of all our clients. We do not allocate these benefits to client accounts proportionally based on the commissions generated by those accounts.

Brokers also provide Charlesworth & Rugg, Inc., free of charge, telephonic administrative assistance regarding software packages used for accessing client data and trading accounts and the ability to access a daily electronic link to client accounts. They also provide access to newsletters, conferences, web casts and employees that may address overall market conditions, regulatory matters, industry developments and other topics. This research, and these products and services, provide benefits to Charlesworth & Rugg, Inc. because we do not have to produce or pay for them ourselves.

Charlesworth & Rugg, Inc. may recommend brokers to effect transactions for clients because we find that broker reports are particularly insightful and useful. To the extent that the transaction fees or commissions charged by that broker might be higher than those another broker might charge, in recognition of the value of such reports, we may still use such a broker. Any product or service we receive from that broker assists us in our investment decision process and, as noted, normally has value to all (or many) of our clients. By selecting such a broker, however, we have a conflict of interest to the extent that Charlesworth & Rugg, Inc. receives valuable research that is ultimately paid for by clients through commission dollars, rather than by Charlesworth & Rugg, Inc.

Principals and employees of Charlesworth & Rugg, Inc. are provided access to the same trading platforms used by discretionary clients of Charlesworth & Rugg, Inc. Accounts of these principals and employees enjoy the same benefits - such as lower mutual fund transaction fees, access to institutional class funds with lower expense ratios, the ability to purchase some load funds on a load-waived basis, and access to certain funds that are closed to retail accounts - and are subject to the same fee, cost and expense schedules as any Charlesworth & Rugg, Inc. discretionary account. These accounts are typically held at either Charles Schwab Institutional or T. D. Ameritrade Institutional. Were it not for the business that Charlesworth & Rugg, Inc. does with these brokers on behalf of its clients, access to these platforms would not be available for accounts of principals and employees of Charlesworth & Rugg, Inc. Therefore, the firm has an incentive to continue to do business with these brokers on behalf of clients, even if doing so is not in the best interests of clients. However, we periodically evaluate the services and prices of other trading platforms and believe that our clients continue to benefit from those prices and the overall quality of services at these organizations.

Charlesworth & Rugg, Inc. does not aggregate orders for buying or selling shares of no-load or load-waived mutual funds since each client that transacts with a specific mutual fund with a designated broker on the same day obtains the same execution price (the fund's net asset value for that day) and pays the same transaction charge.

## **Item 13. Review of Accounts**

Market conditions and individual investments held by each client are monitored on a daily basis and reviewed on a weekly and monthly basis. Special reviews may be initiated whenever important fundamental, technical, cyclic or chart pattern developments occur or when important information

sources are released. All final asset allocation, timing and investment selection decisions and recommendations are made by Dr. Rugg, President of Charlesworth & Rugg, Inc., who supervises all accounts. Most pending investment decisions and recommendations are also carefully reviewed by Jonathan Rugg, Vice President of Charlesworth & Rugg, Inc.

Written portfolio valuation reports are furnished to most clients on a semi-annual basis, based upon the review dates initially specified for each client. A semi-annual portfolio valuation consists of three reports, the Portfolio Appraisal, Semi-Annual Performance and Performance Summary reports. The Portfolio Appraisal report resembles a "snapshot" of the account on the review date and provides details regarding the individual holdings, approximate dividend income, approximate dividend yield, and market value for the account on that date. The Semi-Annual Performance report summarizes the account's performance during the six-month review period. The Performance Summary report compares the time-weighted total return (capital gains plus income) earned by the account over the review period versus two market indices and inflation as measured by the Consumer Price Index. It also shows the total return for each month during the six-month review period and for the year-to-date. Formal written semi-annual reviews are prepared by the Chief Operations Officer, and approved by Dr. Rugg.

Some clients request quarterly portfolio valuation reports. We may agree to provide quarterly reports at our discretion. Quarterly portfolio valuations also consist of the Portfolio Appraisal, Quarterly Performance and Performance Summary reports. These reports are virtually identical to those provided for semi-annual valuations with the exception that the Quarterly Performance and Performance Summary reports cover a period of three, rather than six, months.

For clients with more than one account managed by Charlesworth & Rugg, Inc., a separate valuation report is provided for each account under management.

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

We do not compensate third parties for client referrals. See also Item 12, Brokerage Practices.

## **Item 15. Custody**

Charlesworth & Rugg, Inc. does not maintain possession or custody of any client funds or securities. We expect that each client will receive account statements and trade confirmations from the client's broker-dealer, bank or other qualified custodian using the form of delivery previously selected by each client with their broker, bank or custodian. These statements and trade confirmations are typically delivered by either mail or electronically. Clients should carefully review these statements and any other notifications sent by their broker, bank or custodian. In addition, all clients are advised to carefully compare those brokerage, bank or custodian statements with the semi-annual reports they receive from us.

Some of our clients have given us the authority to withdraw our management fees directly from their account(s), through their broker, bank or custodian. Whenever we withdraw fees from a client account,

we first send a copy of the invoice, stamped “Do not pay,” to the client. These clients should review their monthly or quarterly brokerage, bank or custodial statement for such charges and compare that statement with our invoice.

## **Item 16. Investment Discretion**

For most clients, we are granted discretionary investment authority over the assets in the client’s account. Before Charlesworth & Rugg, Inc. accepts this investment authority, the client must first complete and sign our written investment advisory agreement for discretionary clients. This agreement gives Charlesworth & Rugg, Inc. a limited power of attorney to implement transactions on behalf of the client on a discretionary basis.

Discretionary clients must also establish an account with a broker, bank, or custodian that is acceptable to both the client and Charlesworth & Rugg, Inc. At the present time, most clients establish an account with either Charles Schwab Institutional or T. D. Ameritrade Institutional. In our opinion, both institutions provide a competitive combination of efficient executions, fees and back office services. However, clients need not select one of those custodians to retain Charlesworth & Rugg, Inc. to manage an account.

Clients normally do not place any limitations on the investment discretion of Charlesworth & Rugg, Inc. However, on occasion, clients may impose restrictions on the purchase or sale of certain securities. These clients must also complete a written investment advisory agreement and must specify the precise nature of the limitations placed upon our management of the account in writing.

## **Item 17. Voting Client Securities**

Charlesworth & Rugg, Inc. generally does not vote proxies with respect to client securities held at brokerage firms or custodial banks. These brokers and custodial banks are responsible for forwarding all proxies and related materials directly to the client. Thus, each client maintains the exclusive right and responsibility for voting proxies for securities held in his or her account.

Charlesworth & Rugg, Inc. has agreed to accept the responsibility for voting proxies on behalf of one client who has an account domiciled at a custodial bank. We seek to vote on each matter in a way that serves the best economic interests of our client. In this circumstance, we maintain the corresponding records required pursuant to Rule 204-2 (c) (2) under the Investment Advisers Act of 1940. Information pertaining to how Charlesworth & Rugg, Inc. voted on any specific proxy issue is also available to the affected client upon written request.

A copy of our proxy voting policy and procedures is available to clients upon request.



## **Item 18. Financial Information**

At the present time, Charlesworth & Rugg, Inc. does not have any financial condition that we believe is likely to impair our ability to meet our contractual commitments to clients.