

Item 1. Cover Page

PART 2A of FORM ADV

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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.

Item 2. Material Changes

This item contains a summary of material changes made to this Brochure since the prior filing dated February 29, 2012.

Charlesworth & Rugg, Inc. now offers both prospective and existing clients access to a new investment management service referred to as the Global Allocation Program (GAP). GAP has two product lines, namely the Global Portfolios and the ETF Portfolios. The existing service, which remains unchanged, is now called the Customized Solutions Program.

The Global Portfolios service consists of three portfolio options, each containing a combination of no-load mutual funds, load-waived mutual funds and exchange traded funds (ETFs). The ETF Portfolios service consists of two portfolio options, each utilizing a variety of ETFs. Each Global and ETF portfolio is managed according to a specific investment objective. To begin an account in either service, clients must first select the portfolio with the investment objective that best corresponds to their willingness and ability to accept risk. All portfolios within both new services are co-managed by Donald Rugg, Ph.D. and Jonathan Rugg, CFA, and Jonathan Rugg has final decision making responsibility for each product.

Donald Rugg and Jonathan Rugg also co-manage all portfolios for current Charlesworth & Rugg, Inc. clients (i.e. Customized Solutions clients) and Donald Rugg continues to have final decision making authority over these accounts.

Both GAP services frequently utilize block trading for ETFs to help ensure the same execution for clients with the same portfolio objectives.

Charlesworth & Rugg, Inc. does not provide financial planning services such as tax planning, estate planning or any other planning services within either the GAP or the Customized Solutions Program.

The minimum account size for the Global Portfolios service is \$200,000, whereas the minimum account size for the ETF Portfolios service is \$60,000. At our discretion, we may make exceptions to this minimum account size for either service if, in our judgment, the account has the potential to exceed this amount within a reasonable period of time due to additional contributions.

Employees of Charlesworth & Rugg, Inc. may invest personal assets in any of the three Charlesworth & Rugg, Inc. investment programs, the details of which are further described in Item 11.

The annual fees for both new programs are as follows:

<u>AMOUNT</u>	<u>ANNUAL FEE</u>
<u>Up To \$2,000,000:</u>	
For the first \$1,000,000	1.25%
For the next \$1,000,000	1.00%
<u>Over \$2,000,000:</u>	
For the first \$2,000,000	1.00%
For the next \$3,000,000	0.75%

For the next \$5,000,000	0.50%
<u>Over \$10,000,000:</u>	Negotiable

The minimum annual fee for the Global Portfolios service is \$2,500 and the minimum annual fee for the ETF Portfolios service is \$750. This fee may be waived at our discretion if, in our judgment, the portfolio has the potential to meet our minimum within a reasonable period of time due to new contributions.

The fees and minimum account sizes for our existing service (now called the Customized Solutions Program) remain the same. However, a minimum annual fee of \$6,500 is now in effect for new clients participating in the Customized Solutions Program for all non-Income objectives. The minimum annual fee for new clients with an Income objective is \$3,750. The new minimum fees of \$6,500 and \$3,750 (for Income clients) do not apply to existing clients. In addition, these fees may be waived at our discretion if, in our judgment, the portfolio has the potential to meet our minimum within a reasonable period of time due to new contributions.

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Item 4. Advisory Business

Firm Overview

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. This service is called the Customized Solutions Program. Commencing with the date of this filing, Charlesworth & Rugg, Inc. will offer two new services within what will be called the Global Allocation Program (GAP), namely the GAP – Global Portfolios and the GAP – ETF Portfolios. In addition to utilizing no-load and/or load-waived mutual funds, each new service will also provide advice to clients regarding the purchase and sale of exchange traded funds (ETFs).

In most cases, our firm is given 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 within the Customized Solutions Program may engage us to provide investment advice on a non-discretionary basis, with the client implementing all investment decisions for the account.

Regardless of the type of investment advisory service we provide, the goal of our service is to help achieve the investment objective of each client. Client portfolios are monitored and transactions are implemented in accordance with the previously determined investment objective of each client. We ask clients within all of our investment programs 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 within any program 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.

As of February 29, 2012, the total regulatory assets managed by Charlesworth & Rugg, Inc. are in excess of \$90,000,000. The firm also manages \$3,551,400 (also as of February 29, 2012) on a non-discretionary basis.

Services

Charlesworth & Rugg, Inc. offers three different investment advisory services:

- (1) Customized Solutions Program
- (2) GAP – Global Portfolios
- (3) GAP – ETF Portfolios

Customized Solutions Program

The Customized Solutions Program consists of custom portfolios tailored to meet the specific investment objectives of each client. The principals may select any no-load or load-waived mutual fund for inclusion into client portfolios. Clients choose from one of seven investment objectives according to their willingness and ability to take on risk. Clients within the same investment objective will seldom, if ever, have the exact same funds in exactly the same proportions. Although Donald Rugg, Ph.D. and

Jonathan Rugg, CFA co-manage all accounts in the Customized Solutions Program, all final asset allocation, timing, and investment selection decisions and recommendations are made by Donald Rugg. The account minimum for clients in the Customized Solutions Program is \$1,000,000.

Certain clients within the Customized Solutions Program may ask our firm to manage a given portfolio to achieve a specific objective without divulging (for various reasons) their complete list of financial assets and investments or other relevant personal or financial circumstances. These clients, like all our clients, must complete the Charlesworth & Rugg, Inc. Confidential Information Form. For those clients who decline to provide information regarding their non-Charlesworth & Rugg, Inc. managed portfolios, it is important to answer questions in the Confidential Information Form which identify the approximate ratio of the assets managed by Charlesworth & Rugg, Inc. to their total investible assets and to their overall net worth. This helps us better understand the suitability of the investment objective chosen by the client with respect to their overall financial circumstances.

Global Allocation Program

Global Allocation Program (GAP) portfolios contain a combination of no-load mutual funds, load-waived mutual funds and/or exchange traded funds (ETFs). The GAP service has two components – Global Portfolios and ETF Portfolios. Clients within the Global Portfolios service choose from one of three investment objectives, while clients within the ETF Portfolios service choose one of two investment objectives, each according to their willingness and ability to take risk.

The GAP service is co-managed by Donald Rugg, Ph.D. and Jonathan Rugg, CFA. All final asset allocation, timing, and investment selection decisions and recommendations for all GAP portfolios are made by Jonathan Rugg. GAP portfolios frequently utilize block trading for ETFs to ensure that clients with the same objective receive the same execution.

Correspondence and reports are delivered electronically to all GAP clients. In addition, there are telephonic meetings rather than in-person meetings for clients within either GAP service. If clients have questions regarding their accounts, they may call the office and speak to either Lisa Sternberg or Jonathan Rugg for clarification.

The initial minimum account size for the Global Portfolios service is \$200,000 while the minimum account size for the ETF Portfolios service is \$60,000. We may make exceptions to this, at our discretion, if the newly established accounts have the potential to exceed this amount within a reasonable period of time due to additional contributions.

Certain clients within either GAP service may ask our firm to manage a given portfolio to achieve a specific objective without divulging (for various reasons) their complete list of financial assets and investments or other relevant personal or financial circumstances. These clients, like all our clients, must complete the Charlesworth & Rugg, Inc. Confidential Information form. For those clients who decline to provide information regarding their non-Charlesworth & Rugg, Inc. managed portfolios, it is important to answer the questions in the Confidential Information Form which identify the approximate ratio of the assets managed by Charlesworth & Rugg, Inc. to their total investible assets and to their overall net worth. This helps us better understand the suitability of the investment objective chosen by the client with respect to their overall financial circumstances. The services provided to these clients are identical to those mentioned above, as are all fees and termination privileges.

Other Services

Occasionally members of our firm 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.

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 calculated by the custodian of the account and reviewed by Charlesworth & Rugg, Inc. at the beginning of each semi-annual review period. Fees for consulting services are stated separately below.

Customized Solutions Program

Fees for clients with an Aggressive, Growth or Growth with Income investment objective, or a blend of these objectives, are based upon the following rate schedule:

<u>AMOUNT</u>	<u>ANNUAL FEE</u>
<u>Up To \$2,000,000:</u>	
For the first \$200,000	2.00%
For the next \$200,000	1.50%
For the next \$1,600,000	1.00%
<u>Over \$2,000,000:</u>	
For the first \$2,000,000	1.00%
For the next \$3,000,000	0.75%
For the next \$5,000,000	0.50%
<u>Over \$10,000,000:</u>	Negotiable

There is a minimum annual fee of \$6,500 for clients with an Aggressive, Growth or Growth with Income objective, or a blend of these objectives. The three blended objectives are Aggressive/Growth, Growth/Growth with Income and Income/Growth with Income.

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

For the first \$5,000,000	0.75%
For amounts over \$5,000,000	0.375%

There is a minimum annual fee of \$3,750 for clients with an Income objective.

Global Allocation Program

Fees for clients within the Global Allocation Program are based upon the following rate schedule:

<u>AMOUNT</u>	<u>ANNUAL FEE</u>
<u>Up To \$2,000,000:</u>	
For the first \$1,000,000	1.25%
For the next \$1,000,000	1.00%
<u>Over \$2,000,000:</u>	
For the first \$2,000,000	1.00%
For the next \$3,000,000	0.75%
For the next \$5,000,000	0.50%

There is a minimum fee of \$2,500 for Global Portfolio clients. The minimum fee for ETF Portfolio clients is \$750.

For all programs, fees for the first semi-annual billing 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. For clients in the Customized Solutions Program, invoices may be sent directly to the client, or if the client prefers, to the custodian or broker selected for the account. For GAP clients, invoices are sent directly to the broker.

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

Charlesworth & Rugg, Inc. may manage accounts for principals or employees of Charlesworth & Rugg, Inc. within any of our investment programs. In addition, Charlesworth & Rugg, Inc. may manage accounts for family members of principals or employees of Charlesworth & Rugg, Inc. within any of our investment programs. Fees and minimums for any of these clients in any of our programs may be reduced or waived at our discretion.

The fees charged by Charlesworth & Rugg, Inc. within any investment program may be more or less than those charged by other investment advisers for similar services. Further, clients may purchase no-load mutual fund shares, load-waived mutual fund shares, ETF shares, as well as other securities directly, without our services, through entities that are not affiliated with us. It is also important to understand that every no-load mutual fund, load-waived mutual fund and ETF 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 for effecting transactions in securities (including no-load or load-waived mutual funds and ETFs). (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 no-load mutual funds, load-waived mutual funds or ETFs, or from any of their service providers.

Our investment advisory agreements may generally 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.

Consulting Services

Fees for all market analysis, securities analysis or economic consulting services provided by Donald Rugg, Ph.D. are \$850.00/hour payable within ten (10) days after services have been rendered.

Charlesworth & Rugg, Inc. does not provide consulting services related to financial planning.

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, 401(k) plans and other tax-exempt entities.

To establish a new account, the initial minimum dollar investment is \$1,000,000 for Customized Solutions Program, \$200,000 for the Global Portfolios service, and \$60,000 for the ETF Portfolios service. We may make exceptions to any of these required minimums at our discretion. For example, we may make an exception if a newly-established Customized Solutions client account has an initial balance under \$1,000,000 but is expected to exceed this amount within a reasonable period of time due to additional contributions. Other examples exist where minimums may be reduced within any of our investment programs. These examples include special circumstances, such as charities and their employees, as well as disabled persons. 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 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 for all three Charlesworth & Rugg, Inc. investment programs:

- Defining Investment Objectives
- Asset Allocation
- Selecting No-Load Mutual Funds, Load-Waived Mutual Funds and ETFs (for the Global Portfolios and ETF Portfolios services)
- Portfolio Diversification
- Portfolio Management Over Time

Defining Investment Objectives

The first step in our investment process for all three programs is to help clients select an investment objective for their portfolio or portfolios. During this process, clients are encouraged to review their overall personal and financial needs. This, in turn, requires clients to review their specific income circumstances, growth objectives, risk tolerance, tax circumstances and other factors. Based upon this analysis, their preferences, and the size of their total portfolio, each client then selects either the Customized Solutions Program, the Global Portfolios or the ETF Portfolios. Each client must then choose a specific investment objective within the investment program the client has selected, as follows:

Customized Solutions Program

The investment objectives for the Customized Solutions Program are:

Aggressive

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

Growth

Growth investors seek 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 a blended objective – 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 each portfolio within the Customized Solutions Program 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.

Global Allocation Program (GAP)

Portfolios within both GAP services typically have higher exposure to international and alternative investment asset classes than do clients in the Customized Solutions Program. Alternative asset classes include, but are not limited to emerging markets, real estate, and commodities.

GAP - Global Portfolios

Available portfolio objectives within the Global Portfolios service are as follows:

Global Growth

Investors seek long-term capital appreciation with some income, and are willing to accept moderate to above average levels of risk.

Global Balanced

Investors seek a combination of income, capital preservation, and moderate growth and are willing to accept moderate levels of risk.

Global Diversified Income

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

GAP - ETF Portfolios

Available portfolio objectives within the ETF Portfolios are as follows:

ETF Growth

Investors seek long-term capital appreciation with some income, and are willing to accept moderate to above average levels of risk.

ETF Balanced

Investors seek a combination of income, capital preservation, and moderate growth and are willing to accept moderate levels of risk.

Although each account is placed into one of the above Global Portfolios or ETF Portfolios objectives, we manage each portfolio within the GAP services based upon the special needs and circumstances of each client. Clients within the same investment objective will have very similar, and possibly identical, funds and very similar, and possibly identical, fund allocations. If restrictions have been placed on any account, the funds selected, as well as the allocations, may differ substantially.

Client portfolios for any of the above services 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 within any of the above services.

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, white papers and other sources, 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 no-load mutual fund, load-waived mutual fund and ETF (for GAP portfolios) 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, objectives or by any other criteria.

Please realize that, by design, asset allocation decisions will normally differ for portfolios with different investment objectives. Also, since portfolios within each new GAP service and also within the Customized Solutions Program may have restrictions imposed by the client, the precise asset allocations for different portfolios with the same investment objective in a specific investment program may also differ. In fact, it is unlikely that portfolios with the same objective within either the Customized Solutions Program or either GAP service will have the exact same asset allocation.

Selecting an Initial Portfolio

For each client, we strive to develop a diversified portfolio consisting of no-load mutual funds, load-waived mutual funds and ETFs (for GAP portfolios). A typical client portfolio within any of our programs usually contains from ten to twenty holdings. When taken as a group, these holdings are designed, in our view, to help achieve the investment objective selected by the client.

At Charlesworth & Rugg, Inc., we have developed proprietary models that assist us in screening information on a large number of no-load mutual funds, load-waived mutual funds and ETFs. By

employing these models, we seek to screen our databases of available no-load funds, load-waived funds and ETFs with the goal of identifying:

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

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

At Charlesworth & Rugg, Inc. we also restrict investments to no-load and load-waived 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 and ETFs (for GAP portfolios) that have a clearly defined objective and a history of relatively consistent adherence to this objective. We consider the quality of mutual fund or ETF management, expense ratios, risk levels, the size of the mutual fund or ETF, its current cash flow characteristics and present and past performance.

For ETFs, we also consider construction methodology and fund liquidity (volume and bid/ask spreads) in addition to the other considerations discussed earlier. The precise selection techniques we utilize may vary with the type or volatility of each mutual fund or ETF.

Within the Customized Solutions Program and the Global Portfolios service, we may select (or recommend) virtually any mutual fund (i.e. no-load mutual fund or load-waived mutual fund) for inclusion into client portfolios.

Both the Global Portfolios and ETF Portfolios services also have access to ETFs. Each mutual fund or ETF may invest in a wide variety of securities which may be categorized according to various investment styles, industry sectors, geographic areas, security types or by other criteria. For example, mutual funds or ETFs 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 mutual funds and ETFs 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, mutual funds and ETFs may invest from time to time in other mutual funds and ETFs. As a result, mutual funds and ETFs may be subject to a variety of investment risks, which include, but are not limited to, stock market risk, business risk, interest rate risk, credit risk, foreign investment risk, currency risk, derivatives risks, counterparty risk, geographic risks, diversification risk, political risk, liquidity risk, inflation risk, and industry concentration risk.

Once mutual funds have been identified using the above process, both Donald Rugg and Jonathan Rugg use their judgment to select individual mutual funds (i.e. no-load mutual funds and load-waived mutual

funds) for client portfolios within the Customized Solutions Program. Donald Rugg has the final decision making authority for all portfolios within the Customized Solutions Program.

The GAP services are also co-managed by Donald Rugg and Jonathan Rugg, who use their judgment to select individual mutual funds and ETFs for inclusion into client portfolios within the GAP Global Portfolios. They also use their judgment to select ETFs for inclusion in the ETF Portfolios. Jonathan Rugg has the final decision making authority for all investments within all GAP portfolios.

For all three services, namely the Customized Solutions Program, the Global Portfolios and the ETF Portfolios, our goal is to select mutual funds and/or ETFs with an investment allocation likely, in our judgment, to benefit from the above referenced socio-economic, political, institutional, financial, demographic and other trends that underlie the United States and world economies.

The information used by Charlesworth & Rugg, Inc. in formulating investment strategies may include materials prepared by mutual funds, ETFs, various U.S. Government publications and information derived from personal interviews with mutual fund managers or ETF 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. Finally, as was described previously, the judgment of both Donald Rugg and Jonathan Rugg is a critical component in formulating investment decisions for all of our investment programs.

Portfolio Diversification

For all three of our investment services, we seek to limit risk by selecting a portfolio of no-load funds, load-waived funds and ETFs (for GAP portfolios) 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 and ETFs (for GAP portfolios) that invest in securities within different asset classes. The final mix of equity, bond, and money market funds within client portfolios is typically determined using proprietary models, various analytical tools and the judgment of both Donald 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 and ETFs (for GAP portfolios) that may contain securities invested across sectors, industries and additionally, for bond funds, across varying maturities and types of issuers. The final mix of equity sectors and industries, as well as bond maturities and issuers, is typically determined using proprietary models, analytical tools and the judgment of both Donald Rugg and Jonathan Rugg.

Diversification by Investment Style

We seek to reduce the risk of investing in no-load mutual funds, load-waived mutual funds and ETFs (for GAP portfolios) which hold 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, bonds or other types of financial assets. 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 mutual funds, load-waived mutual funds and ETFs (for GAP portfolios) that employ different investment objectives, such as conservative growth, moderate growth and aggressive growth. We believe that this process may help 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 mutual funds, load-waived mutual funds and ETFs (for GAP portfolios) 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 for securities associated with any country, currency or for the overall risk level of 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 no-load mutual funds, load-waived mutual funds and ETFs (for GAP portfolios) designed to seek to achieve the specific investment objective selected by the client. Over time, we may purchase or sell any no-load mutual fund, load-waived mutual fund or ETF shares (for GAP portfolios). On occasion we may also sell securities that were previously transferred to the account by the client. In each instance, our goal is to enhance the overall risk-adjusted performance of the client’s portfolio.

The management of client portfolios is a dynamic process. We monitor current holdings and seek to upgrade to mutual funds or ETFs (for GAP portfolios) that we believe are more attractive whenever existing mutual funds or ETFs 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 or ETFs (for GAP portfolios).

We monitor the mutual funds and/or ETFs (for GAP portfolios) held in client portfolios on a daily basis and review these mutual funds and ETFs on a weekly and monthly basis. Special reviews may also be initiated whenever significant fundamental or technical developments occur, when important new information is released or when, in the judgment of Donald Rugg or Jonathan Rugg, it appears to be appropriate.

The allocation of client accounts among no-load and load-waived mutual funds and ETFs (for GAP portfolios) 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 broad financial market indices, individual mutual funds and ETFs.
- 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 no-load funds, load-waived funds or ETFs (for GAP portfolios). It is important for every client to understand that buying and selling no-load mutual fund, load-waived mutual fund or ETF shares, 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 within any of our investment programs. In addition, transacting in no-load mutual fund, load-waived mutual fund and ETF 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 mutual fund or ETF to another mutual fund or ETF, there are also many underlying risks that may impact the no-load mutual funds, load-waived mutual funds and ETFs 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 no-load mutual funds, load-waived mutual funds and ETFs that typically 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 no-load mutual funds, load-waived mutual funds and ETFs.
- 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 any of the no-load mutual funds, load-waived mutual funds and ETFs 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 mutual funds, load-waived mutual funds and ETFs.

Principals and employees of Charlesworth & Rugg, Inc. have the option, subject to the approval of Charlesworth & Rugg, Inc., to open one or more accounts within any of our investment services including the Customized Solutions Program, the Global Portfolios service and the ETF Portfolios service. Principals or employees that invest in any of these products must sign an Investment Advisor Agreement and complete a Confidential Information Form just like any other Charlesworth & Rugg, Inc. client. Charlesworth & Rugg, Inc. does not believe this creates a conflict of interest as principals and employees are expected to receive executions and investment results that are quite similar to those received by Charlesworth & Rugg, Inc. clients who have the same objective within any of the above referenced investment services.

With respect to no-load or load-waived mutual fund shares, principals and employees of Charlesworth & Rugg, Inc. may invest and trade in shares of the same no-load or load-waived 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 any no-load or load-waived mutual fund purchased or sold on a particular day is transacted at the same net asset value, as calculated by the no-load or load-waived mutual fund, for that day.

In the event that Charlesworth & Rugg, Inc. purchases or sells shares of a stock, non-government bond, ETF, or closed-end mutual fund during a given trading day for a client account, principals and employees of the firm may not purchase or sell the same stock, non-government bond, ETF or closed-end mutual fund for their personal accounts during that same trading day. These black out restrictions do not apply to any stocks, non-government bonds, ETFs or closed-end funds that are held in employee accounts managed by Charlesworth & Rugg, Inc.

The above-described black out restrictions do not apply to employee accounts managed by Charlesworth & Rugg, Inc. since transactions for these accounts will be batched, when possible, with transactions placed for other accounts within the same program and with the same objective and since the same brokerage firm is used for the execution of trades. In addition, principals and employees may not buy more shares of these securities as 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.

If a client transfers stock, non-government bond, ETF or closed-end fund shares 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 on the same day they are sold for the client. In addition, principals and employees may not buy more shares of these securities as 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 and which serves to establish a standard of business conduct for the principals and employees of our firm. The Code of Ethics, which is monitored and enforced by the firm's Chief Compliance Officer, also includes policies and procedures reasonably designed to prevent the misuse of material non-public information by our principals and employees.

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

Customized Solutions Program

If a client within the Customized Solutions Program 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.

GAP Services

Charlesworth & Rugg, Inc. has selected Charles Schwab Institutional and T. D. Ameritrade Institutional to be the brokers for the Global Portfolios and the ETF Portfolios services, respectively. We believe that Charles Schwab Institutional and T. D. Ameritrade Institutional offer a competitive combination of service, trading resources and commission rates. A special benefit that may accrue to clients in both programs is access to many institutional shares class funds, funds that are usually not available to retail customers and which often have lower expense ratios.

These brokers also offer certain ETFs and mutual funds for zero transaction costs, provided that the funds are held for a specific time period. The required holding periods are typically compatible with the investment management approach employed by Charlesworth & Rugg, Inc.

All Services

If Charlesworth & Rugg, Inc. can negotiate a lower than normal commission schedule with a custodian or 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 mutual fund and ETF 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, due diligence meetings, web casts, special events and employees that may address overall market conditions, regulatory matters, industry developments, best business practices 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 a certain broker to effect transactions for clients because we believe that the broker's 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 which normally have 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 those 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 from the overall quality of services at these organizations.

Charlesworth & Rugg, Inc. may or may not aggregate orders for buying or selling shares of no-load or load-waived mutual funds within the Customized Solutions Program. Orders might not be aggregated 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.

Within the GAP service, we normally aggregate orders for buying or selling shares of no-load or load-waived mutual funds and ETFs to ensure that clients with the same objective, within a given GAP service, obtain the same execution price on a given day. This is particularly important for ETF shares. This aggregation of orders is typically implemented by placing a block trade with the broker. Please realize that block trades are separately placed with Charles Schwab Institutional (for the Global Portfolios service) or T. D. Ameritrade Institutional (for the ETF Portfolios service) and that they may be executed at different times of the day, and at different prices. Also, within a given GAP service, ETF trades may be placed at different times and at different prices for clients with different objectives. However, unless new monies are added to (or withdrawn from) a client account on that day, all clients with the same objective within a given GAP service will usually obtain the same execution price on a given day.

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 or when the judgment of Donald Rugg or Jonathan Rugg suggests that a special review is appropriate.

All asset allocation, timing and investment selection decisions and recommendations within Customized Solutions Program are reviewed by both Donald Rugg and Jonathan Rugg, with Donald Rugg having the final decision making authority.

All asset allocation, timing and investment selection decisions and recommendations within both GAP services are reviewed by both Donald Rugg and Jonathan Rugg, with Jonathan Rugg having the final decision making authority.

Written portfolio valuation reports are furnished to most clients within the Customized Solutions Program 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 stock market indices and inflation as measured by the Consumer Price Index. For Income accounts we also provide two bond market indices. This report 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 Donald Rugg.

Some clients within the Customized Solutions Program 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.

Clients in both GAP services receive semi-annual portfolio valuation reports that are delivered electronically. These reports are similar, but not identical, to the reports described earlier for the Customized Solutions Program. The stock and bond indices used for both GAP services also include a global stock market index and an aggregate bond index.

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

Item 14. Client Referrals and Other Compensation

At the present time, 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 for any investment program. 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.

Customized Solutions Program

For Customized Solutions clients, account statements and trade confirmations are typically delivered either by mail or electronically. Clients should carefully review these documents, as well as any other notifications sent to them by their broker, bank or custodian. In addition, all clients are advised to carefully compare their brokerage, bank or custodian statements with the semi-annual reports they receive from us.

Some of our Customized Solutions clients give us the authority to withdraw our management fees directly from their account(s), through their broker, bank or custodian. These clients should carefully review their monthly or quarterly brokerage, bank or custodial statements for such charges to ensure that they are consistent with the fee schedule designated in their signed copy of the Charlesworth & Rugg, Inc. Investment Advisor Agreement.

GAP Services

For both GAP services, account statements and trade confirmations are typically delivered electronically. Clients should carefully review these documents and any other notifications sent by their broker. In addition, all clients are advised to carefully compare their brokerage statements with the semi-annual reports they receive from us.

Most clients in the Global Portfolios or the ETF Portfolios services give us the authority to bill their account directly through their broker. These clients should carefully review their monthly brokerage statements for such charges to ensure that they are consistent with the fee schedule designated in their signed copy of the Charlesworth & Rugg, Inc. Investment Advisor Agreement.

Item 16. Investment Discretion

For most clients in the Customized Solutions Program and all clients in the GAP program, 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 Advisor 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 Customized Solutions and all GAP 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. Clients within the Customized Solutions Program need not select one of these custodians to retain Charlesworth & Rugg, Inc. to manage an account. In this circumstance, however, Charlesworth & Rugg, Inc. must approve the broker or custodian recommended by the client.

Clients within the Customized Solutions Program and both GAP services normally do not place any limitations on the investment discretion of Charlesworth & Rugg, Inc. However, on occasion, a client

within any program may impose restrictions on the purchase or sale of certain securities. These clients must also complete a written investment advisor agreement and, in addition, must specify the precise nature of the limitations placed upon our management of the account in writing.

Item 17. Voting Client Securities

Customized Solutions Program

For clients in the Customized Solutions program, 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 Customized Solutions client who has an account domiciled at a custodial bank rather than a broker. 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.

GAP Services

Charlesworth & Rugg, Inc. does not vote proxies with respect to any client securities held within either GAP service. In each case, the custodial broker is 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.

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.