

Item 1 – Cover Page

Salem Investment Counselors

480 Shepherd Street
Winston-Salem, NC 27103
Telephone: (336) 768-7230
Fax: (336) 760-2512
Website: www.saleminvestment.com

Brochure Date: March 30, 2012

This Brochure provides information about the qualifications and business practices of Salem Investment Counselors (“Salem”). If you have any questions about the contents of this Brochure, please contact the firm via telephone at (336) 768-7230 or email at Kip@salemcounsel.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Salem Investment Counselors is a federally registered Investment Advisor. Registration of an Investment Advisor does not imply any level of skill or training. The oral and written communications of an Advisor provide you with information from which you determine to hire or retain an Advisor.

Additional information about Salem Investment Counselors is available on the Securities and Exchange Commission’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission (“SEC”) published “Amendments to Form ADV” which amends the disclosure document that Salem Investment Counselors (“Salem”) provides to clients as required by SEC Rules. In accordance with these rules, Salem Investment Counselors filed this brochure on March 30, 2011.

Since the filing on March 30, 2011, Salem has not made any material changes to the firm’s Brochure. For the filing due March 30, 2012 Salem has updated the assets under management (Item 4) and the biographies of the investment advisors (Item 13). These changes were minor in nature and do not constitute a major change structure or business of Salem Investment Counselors.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. Salem will also reference the date of the last annual update of the brochure.

In the past, Salem has offered or delivered information about the qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, Salem will ensure that clients receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of Salem’s fiscal year (December 31st). Salem may also provide other ongoing disclosure information about material changes as necessary.

Salem will provide clients with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, Salem’s Brochure may be requested by contacting Kip Keener, Chief Compliance Officer at (336) 768-7230 or Kip@salemcounsel.com.

Additional information about Salem Investment Counselors is also available on the Securities and Exchange Commission’s website at www.adviserinfo.sec.gov.

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Item 4 – Advisory Business

Founded in 1979, Salem is a federally registered Investment Advisor that provides financial management expertise to individuals, foundations, corporations and professional organizations throughout the United States. As of December 31st, 2011, Salem had assets under management of \$1,050,000,000. All of these assets are managed subject to Salem's discretion; Salem does not manage any non-discretionary assets.

Salem offers investment management services, including financial planning and asset management. Salem believes that investment advice is only effective if all aspects of the client's needs and circumstances are considered. This includes understanding the client's short and long term investment and financial goals, ascertaining the client's risk tolerance and analyzing the client's financial situation with regard to taxation, insurance and investment allocation issues.

After partnering with clients to understand their investment needs, Salem constructs and manages the client's investment portfolio. Salem utilizes a broad range of investment vehicles to meet a client's investment goals including: equities, fixed income securities, exchange traded funds, mutual funds, real estate investment trusts, master limited partnerships and private equity funds. Client assets are invested in one or more of the above categories according to the asset allocation agreed upon with the client.

Although Salem has full discretionary authority over the accounts under its management, Salem will respect and incorporate any client restrictions that the client imposes upon the investment account.

Salem is wholly owned by its partners, a rarity in today's financial marketplace. The equal-share principal owners of Salem Investment Counselors include: Dale M. Brown, David B. Rea, Jeffrey C. Howard, William R. Watson, Robert T. Beach and Kenneth S. Jones.

Item 5 – Fees and Compensation

Salem's normal fee for services is 1% per year of assets under management. Discounts and premiums to the fee schedule may be negotiated. In addition, Salem may utilize a flat annual fee in lieu of the percentage of assets under management. Salem's fees are billed at the end of each quarter and are based on the market value of the account as determined by the client's custodian at the end of the quarter. At the client's option, this fee may be paid directly from the account. The fee is debited from the client's account or paid by the client outside of the account generally within two months of the end of the quarter. Accounts initiated or terminated during a calendar quarter may be charged a prorated fee. All clients receive a billing statement from Salem showing the fee calculation methodology as well as the final amount of fees charged to the client.

In addition to the management fee charged by Salem, clients may be subject to other fees and expenses associated with the management of the account. Salem's fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses which may be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and third party investment advisors such as management fees, custodial fees, transfer fees, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, exchange traded funds, master limited partnerships and private equity managers may also charge internal management fees. The details of these fees may be found in each investment's prospectus or website. Such charges, fees and commissions are exclusive of and in addition to Salem's fee, and Salem shall not receive any portion of these commissions, fees, or charges.

Item 12 further describes the factors that Salem considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

Item 6 – Performance-Based Fees and Side-By-Side Management

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

Item 7 – Types of Clients

Salem Investment Counselors provides portfolio management services to individuals, corporations, corporate retirement and profit sharing plans, charitable institutions, foundations and trusts.

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

Salem Investment Counselors designs portfolios to meet the client's return objective and risk tolerance. Salem believes that equities should be the foundation of most investment portfolios. Salem does not believe that "timing" the stock market through anticipating periods of rising and falling stock prices can successfully be done on a consistent basis. Salem selects equities for client investment which have one or more of the following characteristics:

- Established companies with above average prospects for growth. These companies will have strong performance records, solid market positions, high margins and return on equity and reasonable financial strength.
- Small and medium-sized companies that may be out of favor or not closely followed by investors and are selling at prices which do not adequately reflect their long-term business potential.
- Companies in industries which are undergoing consolidation, where the likelihood of acquisition is above average.

Salem's investment philosophy with respect to both taxable and tax-exempt fixed income securities is to minimize risk for clients. Salem considers primarily high quality issues in the short-to-intermediate maturity range that Salem is confident will meet the scheduled interest payments.

In addition to the core equity and fixed income investing, Salem may utilize a broad range of investment vehicles to meet a client's investment goals including: exchange traded funds, mutual funds, real estate investment trusts, master limited partnerships and private equity. These assets are complimentary to the core investment approach and may be used to augment Salem's core investment strategy or to meet a specific need of a client.

Salem may also use technical analysis (price movement analysis) to aid in determining prices that offer beneficial entry and exit transactions for securities in client accounts.

From time to time, Salem may receive shares in initial public offerings and secondary offerings from various brokers with whom the company does business. These shares are generally very limited in number and may or may not represent "hot issues." The shares will be allocated in a fair and equitable manner among the advisors requesting the shares. The individual advisor will then distribute those shares in a fair and equitable manner to those clients for whom such investments are suitable.

Investing in any security involves a risk of loss that clients should be prepared to bear. The price of a company's stock may fall for several reasons including, but not limited to, problems with the company and general market/economic/political conditions. Movements in interest rates and general market/economic/political conditions may affect the day-to-day valuation of our fixed income investments resulting in a loss of value.

Item 9 – Disciplinary Information

Registered Investment Advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Salem or the integrity of Salem's management. Salem has no information applicable to this item.

Item 10 – Other Financial Industry Activities and Affiliations

Robert Beach is a member of the Chicago Board Options Exchange.

All of the employees of Salem may participate in outside activities. None of these activities may present a conflict or distraction to their employment at Salem.

Item 11 – Code of Ethics

Salem has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to clients. The Code of Ethics includes, among other things, provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All supervised persons at Salem review and acknowledge the terms of the Code of Ethics annually. This Code is available to any client/prospective client at any time upon request. Salem has also adopted a Compliance Manual, containing all of its policies. A copy of the manual is available upon request.

Salem and its employees may, for their personal accounts, buy or sell securities identical to those recommended to clients. Additionally, Salem or any employee may have an interest or position in a certain security(ies) which may also be recommended to a client. The firm and its employees may also participate in private equity offerings that are also recommended to clients for whom such investments are suitable. These offerings are generally managed by third party advisors and are not under the control of Salem or any of its employees. As these situations may represent a potential conflict of interest, Salem has established strict policies governing personal securities transactions in order to protect the interest of its clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Salem will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Salem's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Salem and its clients. All personal securities transactions and holdings are reported to the Chief Compliance Officer for review.

It is Salem's policy that the firm will not affect any principal securities transactions for client accounts. Salem will also not cross equity trades between client accounts. Salem will cross fixed income trades between client accounts according to the following parameters: 1) the clients must be unrelated 2) a third party broker, typically the clients' custodian, independently sets the pricing levels for both the buyer and seller based on current market prices and 3) the prices paid by both the buyer and seller are better than the open market pricing.

Principal transactions are generally defined as transactions where an advisor, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment advisor in relation to a transaction in which the investment advisor, or any person controlled by or under common control with the investment advisor, acts as broker for both the advisory client and for another person on the other side of the transaction.

Item 12 – Brokerage Practices

Salem Investment Counselors utilizes two sources for executing client transactions. The first source is the brokerage services provided by the client's custodian. Salem's second source for executing client transactions is independent brokers that have established relationships with Salem. Depending upon the client's custodian, either of these options may be available for executing client transactions. The investment advisors at Salem have discretion to direct securities transactions to either source. Many factors go into this decision, including but not limited to the commission charged, the quality of the execution and the ease of settling trades with the broker. Salem only maintains relationships with custodial and independent brokers who offer competitive brokerage rates.

Clients may also direct Salem to use a particular broker for transactions in their account. Salem will abide by this direction after informing clients that such directed brokerage may result in less than favorable execution of the client's transaction.

Salem's custodial and independent brokers may send research reports to some or all of the investment advisors at Salem. The investment advisors at Salem may use this research to help make investment selections for client accounts and Salem may direct trades to the broker providing such research.

Salem does not receive any soft dollar benefit other than research from any of its brokers. Salem does not have any agreements or understandings with brokers to direct client transactions to a particular broker, or to pay commissions higher than those obtainable from other brokers in return for research products or services. The company reviews all trading and brokerage relationships semi-annually to ensure that Salem's clients are receiving the best execution from brokers.

Whenever possible and appropriate, client trades may be aggregated for the purpose of executing block trades. Each account will participate in a block order at an average price and all transaction costs are shared on a pro-rata basis. Occasionally, a block trade will not be filled due to the use of a limit order or the type of stock (such as a small cap stock with limited trading volume). In the event of an unfulfilled block trade, the trade will be allocated using an

alphabetical/reverse alphabetical policy. The advisor will allocate the shares according to the alphabetical order of client accounts. Upon the next occurrence of an unfulfilled block trade, the advisor will allocate the shares in reverse alphabetical order of client accounts. Salem believes that this practice will ensure that all client accounts are treated equally over time.

Item 13 – Review of Accounts

The advisors at Salem routinely review client accounts. These reviews occur on a monthly, weekly or sometimes daily basis. In general, the matters reviewed are those pertinent to the account including asset allocation, cash requirements and account holdings. All accounts receive statements of all transactions and holdings in the account from the account custodian on a monthly or quarterly basis.

Salem provides written reports to clients quarterly, semi-annually or annually. These reports may occur in conjunction with an in-person meeting with the client. All advisors at Salem are available to talk or meet with clients at the client's discretion.

The following individuals serve as advisors for Salem Investment Counselors:

William R. Watson

Bill began work as a counselor at Salem in 1982. Before that time, he was employed at Wachovia Bank as an Investment Strategist. Bill received his M.B.A. degree from the University of North Carolina in 1966 and his undergraduate degree from North Carolina State University in 1963. In 1975, Bill obtained the Chartered Financial Analyst designation from the Institute of Chartered Financial Analysts.

David B. Rea

David received his J.D. degree from Wake Forest University School of Law in 1979 and in 1981 he earned his M.B.A. degree from Indiana University. He is a graduate of Wabash College in Crawfordsville, Indiana. David became a CPA in 1982 and was employed as a senior tax accountant at Deloitte, Haskins & Sells prior to joining Salem in 1984. In 1987 David was awarded the Chartered Financial Analyst designation. He has been active in the Clemmons and Winston-Salem communities and has served on numerous boards and community organizations.

Robert T. Beach

Bob has been with Salem since 1985. Prior to joining the firm, he worked for an investment counseling firm in Wisconsin and a venture capital company in Washington, D.C. He began his investment career as a financial analyst with Smith Barney in New York in 1976. Bob received a

J.D. degree from Stanford Law School and an M.B.A. from Stanford Graduate School of Business. He earned his undergraduate degree at Dartmouth College and served as an officer in the U.S. Navy prior to graduate school. Bob earned the Chartered Financial Analyst designation in 1988 and has served as an officer of the North Carolina Society of Financial Analysts.

Dale M. Brown

Dale is President of Salem Investment Counselors, Inc. and a graduate of the University of North Carolina School of Business and School of Law where he was a member of Phi Beta Kappa and the Order of the Coif. He became a Certified Public Accountant in 1981 and a member of the North Carolina State Bar in 1979. Dale worked for Deloitte, Haskins and Sells from September 1979 to December 1987 where he was a designated specialist in qualified retirement plans and estate planning. In January 1988, Dale joined Salem where he specializes in fixed income securities and portfolio management. He earned the Chartered Financial Analyst designation in 1990. Dale is a past member of the Board of Trustees of Wake Forest University Baptist Hospital.

Jeffrey C. Howard

Jeff left one of the premier national law firms, Kilpatrick Stockton, L.L.P., to join Salem in January 1996. As a partner in Kilpatrick Stockton's Winston-Salem office, he practiced law for 15 years. Before joining the law firm, Jeff was a judicial clerk to United States District Judge Franklin T. Dupree, Jr. He earned his J.D. degree at the University of Tulsa College of Law and his undergraduate degree from Duke University. Jeff is a past President of the Young Lawyers Division of the North Carolina Bar Association and he has served as President of the Parents' Association and Chair of the Board of Trustees of Forsyth Country Day School. Jeff is an officer of the Duke Alumni Board of Directors and Immediate Past Chair of the Hospice and Palliative Care Foundation Board of Directors. He is Chairman of the Board of The First Tee of the Triad, a chapter of the national organization designed to foster character development and life skills in kids through the game of golf.

J.F. Goins III

Ted is a 1988 graduate from the University of North Carolina at Chapel Hill with a double major in Economics and History. Since 1991 he has served several regional brokerage firms as an analyst, institutional salesman and client manager. Ted's primary emphasis has been small cap equity analysis. Ted is an active volunteer and board participant with several local non-profit organizations.

Kenneth S. Jones

Ken received his MBA in 1980 from the University of Chicago, graduating *cum laude* with

concentrations in finance and accounting. He received his undergraduate degree from Duke University in 1978, graduating *magna cum laude*, with honors in economics. He joined Salem in 2000 after twenty years practicing accounting with a concentration in tax and financial planning. Ken was awarded the Certified Public Accountant designation in 1982. In 1995 he was awarded the Personal Financial Specialist designation by the American Institute of Certified Public Accountants and he earned the Chartered Financial Analyst designation in 2003. Ken has been active in the community, including being chairman of several church finance committees.

Kip Keener

Kip is a 2002 graduate of the Wake Forest School of Law and member of the North Carolina Bar. Kip received his undergraduate degrees from Hampden-Sydney College in 1999, graduating *summa cum laude* with honors in Political Science and Psychology. Since joining Salem, Kip has helped develop financial models for equity valuation and asset allocation models for client accounts. Kip serves as the firm's Chief Compliance Officer, directing all firm policies and procedures.

Mark I. Thompson

Mark received his MBA degree from Wake Forest University's Babcock Graduate School of Management in 1983 with concentrations in finance and investments. He received his undergraduate degree from the University of North Carolina at Chapel Hill in 1974, majoring in Political Science. Prior to joining Salem in 2006 as a Vice President, Mark held senior relationship management positions for 20 years with specialized wealth advisory and family office firms, Wachovia Capital Management and Atlantic Trust Private Wealth Management, serving all aspects of client families' financial management needs. At both firms, Mark assumed the fixed income coordinator's role in the areas of fixed income strategies, management and trading. Mark has remained active in various leadership and board activities in the Winston-Salem community throughout his professional career.

Item 14 – Client Referrals and Other Compensation

Salem does not have any arrangements with any third parties under which it receives an economic benefit for providing advisory services to a client. Salem does not have any arrangement which provides compensation to a third party for client referrals.

Item 15 – Custody

Salem uses qualified custodians selected by the client to hold client securities. Salem has custodial arrangements with brokers, banks, and trust companies. These custodians send regular monthly statements to clients recording all holdings and activity in the account over the covered time period.

Salem has custody of client assets only in relation to Salem's billing practices. As a part of our services to clients, Salem does offer clients the option to have the investment advisory fee debited directly from the client account. For those clients that select this option, Salem directs the custodian to debit the fees according to our normal billing practice as described in detail in Item 5.

Item 16 – Investment Discretion

Salem receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the investment objectives of the particular client account.

When selecting securities and determining amounts, the advisors at Salem observe the asset allocation agreement and any client limitations or restrictions.

Item 17 – Voting Client Securities

As a part of its discretionary authority, Salem manages all proxy matters for clients. The Chief Compliance Officer reviews all proxies and votes them according to the perceived best interest of the client. If the client wishes to direct the voting of a particular proxy, Salem will follow the client's directions for the account.

In cases where Salem is aware of a conflict between the interests of a client and the interests of Salem or an affiliated person of Salem, Salem will always vote the proxies in the best interest of the client, unless Salem notifies a client of such conflict and obtains a written consent from the client acknowledging the conflict and waiving the objection.

Clients may direct the voting of proxies for their account by putting their wishes in writing and sending them to the advisor. Clients may also request a copy of Salem's proxy voting record by sending a written request to the advisor or Chief Compliance Officer.

Item 18 – Financial Information

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