

**Part 2A of Form ADV: *Firm Brochure***

**Item 1**

**SMITH CAPITAL MANAGEMENT, Inc.**

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**This brochure provides information about the qualifications and business practices of Smith Capital Management, Inc. (Smith Capital, SCM, us, we, our).**

**If you have any questions about the contents of this brochure, please contact us at the telephone number above or our Chief Compliance Officer at the email address above.**

**The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about SCM is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for SCM is 104924.**

## **Item 2 - Summary of Material Changes**

### **Item 8**

Corrected and further clarified relationships of Rush Harding and Steve Selakovich with Crews and Associates and Smith Capital Management.

### **Item 10**

Corrected and further clarified relationships of Rush Harding and Steve Selakovich with Crews and Associates and Smith Capital Management.

### **Page 9**

Correcting location where Crews and Associates custodies securities.

### Item 3 - Table of Contents

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## **Item 4 - Advisory Business**

Smith Capital Management, Inc. is an Arkansas based investment adviser registered with the Securities and Exchange Commission (SEC). We also file “notice filings” in those states where we have 6 or more clients (AR, CA, LA, and TX). We also register as Investment Adviser Representatives (IARs) those individuals who meet the definition of an IAR under the Investment Advisers Act of 1940.

SCM was initially registered with the SEC on June 26, 1984. We have only one place of business (in Little Rock, AR).

We provide a number of advisory services to our Clients (Client, you, your); including the following (each is then further described, below):

- Portfolio Management Services
- Financial Planning Services
- Investment Adviser and General Partner to a Private Hedge Fund

Our principal executive officers are comprised of the following individuals:

- Stephen Chaffin, President
- Jim Strawn, Vice President
- Jay White, Vice President
- John Carroll, Vice President

### **Portfolio Management Services**

We provide portfolio management services for our Clients based on the Client’s specific individual needs and circumstances. To do so, we meet with each Client to determine the Client’s:

- Investment goals and objectives
- Time horizons
- Risk tolerances
- Income, net worth, tax status
- Family obligations
- Desires for retirement and other “life goals”
- Client imposed investment restrictions (if any) related to beliefs on child labor, religion or other values; any such limitation or restriction must be communicated to us in writing (and accepted by us).

Please see Items 12 and 16 below for additional information on Brokerage Practices and Investment Discretion.

Our portfolio management services include the following types of publicly traded and “liquid” securities:

- Stocks
- Bonds
- Mutual Funds
- Exchange Traded Funds
- And similar securities

We suggest (subject to negotiation) that a minimum account size to engage our services be at least \$500,000. To reach this threshold, accounts for one relationship may be “household”; however, we impose a minimum fee (per quarter) of \$25 per related family account that comprises a family relationship. A typical “related” account could include IRA’s or Roth IRA’s, a minor child’s account, etc. of \$20,000 or lower that are accepted as an “accommodation” for a Client.

### **Financial Planning Services**

We do not generally provide Financial Plans (comprehensive or limited); however, we may include financial planning services as part of our portfolio management services. Our primary focus for financial planning purposes is as follows:

- Cash flow projections (current and future cash flow needs)
- Asset values and withdrawal plans, and
- Retirement planning

Financial planning advice is generic in nature; we do not recommend specific products or services. In the course of offering financial planning and investment advisory services, SCM may recommend attorneys, tax, and accounting professionals as a courtesy. SCM does not receive a fee for these referrals. You are free to select any professional that you feel best meets your specific needs.

### **Investment Adviser and Managing Member to a Private Hedge Fund**

SCM is the investment adviser and Managing Member to a private fund (hedge fund), the Fixed Opportunity Partners, LLC (FOP or the Fund). This LLC was organized in Delaware in 2003. The Fund’s principal office is the same as SCM (see Page 1, above).

This Fund is a private fund meaning the Fund cannot be “marketed” generally to investors. It may be offered solely on a private basis and only to sophisticated investors (Accredited or Qualified).

The investment objective of the fund is to provide current income and capital appreciation to “investors” in the fund (Limited Partner / Limited Member Investors). To meet the Fund’s objectives, the managing member / investment adviser (SCM) will attempt to take advantage of the inefficiencies in the fixed income securities markets by trading blocks of fixed income securities that allow the fund to profit from these inefficiencies. The inefficiencies are identified through discussions with market participants (fixed income traders) and our own research of financial statements and other

available information related to a security's fair market value.

Please see the Confidential Private Offering Memorandum for the Fund for specific details on the investment objectives, roles and responsibilities of the Managing Member, among other Fund details.

**Assets under Management (as of December 31, 2011):**

Discretionary	\$311,467,837
Non-Discretionary	None

**Item 5 - Advisory Fees / Compensation**

**Portfolio Management Services**

Fees for portfolio management services vary by the types of securities used in the portfolio, as follows:

**Equities (mutual funds and individual stocks)**

Up to \$500,000, the fee is 1.25%  
Over \$500,000, the fee is 1.00%  
Over \$1 million, the fee is .875%  
Over \$3 million, the fee is negotiable

**Fixed Income (mutual funds / individual securities):**

Up to \$3 million, the fee is .50%  
Over \$3 million, the fee is .30%

**Index Fund Management (ETFs):**

Up to and over \$3 million, the fee is .50%

**401k Fund Management:**

Up to and over \$3 million, the fee is .75%

**Balanced Accounts (Combination of Equities and Fixed Income):**

Up to \$1 million, the fee is .875%  
Over \$1 million, the fee is .75%  
Over \$3 million, the fee is negotiable

For accounts opened or closed during a calendar quarter, the fees are pro-rated for the number of days that the service was provided. We charge our fees in advance of the service; as a result, the fee is due and payable when the advisory agreement with us is executed, then charged on the first day of each subsequent calendar quarter. Upon termination, the advisory fee is calculated through the date of notification of termination plus 30 days, and un-earned and un-used advisory fees are promptly refunded.

If additions or withdrawals are made in an amount that is 10% or greater of the portfolio value, we will pro-rate the additional or refunded advisory fee amount based on the number of days services were provided (or not provided).

An account may be terminated for any reason by either party (us or you) by delivering 30 days written notice, or verbally, followed up with written notification.

Advisory fees are typically, but not always, paid to SCM via direct debit of your custodial account as outlined in our advisory agreement. As an alternative, we can invoice you and you can pay by check. When directly debiting fees, we will send to you a worksheet showing the assets on which our fees are based, the rate you are being charged, the minimum quarterly fee (if applicable) for smaller “accounts” and the total fee due. At the same time, we will send a debit request to the third party custodian. The custodian will debit the account and remit to us the fee due.

All debits and credits in your account are documented in the monthly statements you receive directly from your third party broker custodian, including all fee payments to SCM.

### **Financial Planning Services**

We do not charge a separate fee for financial planning services we provide; they are included under the portfolio management fee (described above).

### **Investment Adviser / Managing Member to the Private Fund**

Fixed Opportunity Partners I, LLC pays a management fee of 1.0% (100 basis points) on the Net Asset Value of the Fund to SCM for our portfolio management services to the Fund; the payment is due and paid quarterly, in advance, on the first calendar day of each quarter.

In addition, starting with the end of the fourth quarter of the Initial Closing Date, a performance-based fee is paid (if earned) on a quarterly basis equal to 20% per annum (or 5% per quarter) of the amount of the performance of the Fund that exceeds:

The return of the Barclays Capital Aggregate Bond Index,  
+.50% (*five basis points*) over the total performance of the preceding four  
quarters

The performance-based fee and other specifics related to the Fund are contained in the Private Fund Offering Memorandum and Subscription Agreement.

All fees are directly debited from the Fund by SCM or by the Administrator to the Fund, as the case-may-be.

## General Information on Advisory Fees and Other Costs

- SCM imposes a minimum account size / family relationship of \$500,000 (negotiable).
- SCM imposes a minimum “related” account quarterly fee of \$25 per quarter.
- Fees we charge for our services may be negotiable based upon a number of factors (services, portfolio size, administrative and other services, etc.).
- We may provide our portfolio management services to employees, family members, or friends of SCM and our principals at no cost or at fee schedules that are lower than those disclosed above.
- Clients (you) should understand that similar advisory services as described above may be available from other sources at fees that are higher or lower than the fees charged to our Clients (except those that may be provided free of charge (see item 4, immediately above).
- Our advisory fees are charged as described in Item 5. We only use performance-based fees to Limited Members (investors) in the Fund.
  - Otherwise, our advisory fees are not charged on the capital appreciation of the funds or securities of any Client (except the Fund).
- The fees you pay to us do not include the following fees as described below. All listed fees or expenses are borne solely by you the client. In addition, *we do not receive*, directly or indirectly, any portion of the fees or expenses described below that are charged directly to you:
  - Fees and expenses (including advisory fees and administrative fees) charged to shareholders of mutual funds and ETFs
    - Please review the prospectus of the mutual fund or ETF for complete information (prospectus’ are provided directly to you by your broker dealer / custodian)
  - Brokerage commissions (agency or principal, i.e., mark-up or down, if applicable)
  - 12b-1 mutual fund distribution fees
  - Transaction fees (SEC or exchange)
  - Charges imposed by your custodian or broker dealer
  - Custodial Fees
  - Deferred sales charges (on mutual funds)
  - Transfer taxes
  - Wire transfer and electronic fund transferring fees
  - Other fees and expenses
- Most, but not all, of these additional fees and expenses are disclosed on the confirmations of security transactions charged to you by the executing broker dealer or your custodian (as the case-may-be), or they are identified on the statement you receive directly from your broker dealer or custodian.

## Additional Compensation:

Rush Harding has a 35% ownership interest in Chasc Inc. and serves as Secretary of Chasc Inc., the parent company of SCM. Mr. Harding is also the CEO and sits on the Board of Crews & Associates, Inc. (“Crews”) in that capacity. Mr. Harding has no ownership interest in Crews and any power Mr. Harding has at Crews is solely the result of his official position as CEO of Crews. Mr. Harding is not a control person at Crews.



Steve Selakovich has a 14% ownership interest in Chasc Inc. and is also an employee of Crews. Crews is a:

- Securities broker dealer with the Financial Services Industry Regulatory Authority (FINRA) and the SEC (CRD number 8052).
  - Crews is a self-clearing broker dealer which, at the direction of its customers, Crews safekeeps securities for the benefit of those accounts. Securities in those client accounts are held at the Depository Trust Company or money center banks in New York City.
- Crews is also a Registered Investment Adviser with the State of Arkansas, and
- A registered insurance agency / broker for various insurance companies.
- Crews has no employees who provide investment advice. Neither Crews nor any employee of Crews receives any compensation for providing investment advice.

Rush Harding is a registered representative broker dealer and insurance agent of Crews, as is Steve Selakovich. Neither person sells insurance or insurance products. Crews is licensed to sell a number of financial services products and securities to its customers, and through this association, to the Clients of SCM. Rush Harding sells securities to the Fund and not to Smith Capital Management clients.

Securities and services offered by Crews, and indirectly to Clients of SCM, include:

- Agency, or principal transactions in individual equity securities (stocks)
- Agency, Agency Cross transactions and principal transactions in fixed income securities
- Private placement securities
- Municipal leases
- Others

As a result of the positions Rush Harding holds with SCM and Crews, there is a potential conflict of interest when SCM provides portfolio management or financial planning services (and implementation recommendations) to you.

Please see Items 10 and 14, below, for additional information on these potential conflicts of interest.

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

As described under Items 4 and 5 above, SCM is also the adviser and managing member of a Private Fund that charges performance-based fees (and an asset-based fee). As a result, there is the potential that SCM will:

- Allocate certain transactions to the Fund (to increase performance and compensation) instead of allocating those trades to Non-Fund Clients (separately managed accounts)

- More frequently trade the Fund account to “lock-in” specific transactions (profits) to increase the “realized” gains in an effort to outperform the index (thus receiving increased compensation)

As these are “potential conflicts of interest”, SCM has developed rotational (who goes first) and allocation procedures related to fixed income trading designed to protect our individual (separate account) clients (you) and the Fund (and its Limited Members / Investors).

In addition, to further mitigate this risk, SCM notes that the securities purchased for the Fund (and non-Fund Clients) are typically different (meaning that the Fund may take positions with higher risk / return levels than those securities which may be appropriate for individuals (non-Fund Clients). This means that the conflict of interest is not present in all transactions.

Please see Item 12, Brokerage Practices, below.

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

We provide our services to:

- Individuals, including high net worth individuals
- Pension and Profit Sharing Plans
- Trusts, Estates or Charitable Organizations
- Corporations and other business entities (such as LLCs, LLPs, Family Limited Partnerships)
- Others

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

We utilize the following analysis methods, sources of information and strategies:

- Charting, fundamental, technical and cyclical analysis
- Financial newspapers / magazines
- Physically “inspecting” a company’s corporate offices or a municipality (for municipal fixed income securities)
- Research materials by third parties
- Corporate rating services
- Timing services
- Annual reports and other filings with the US SEC
- Company press releases
- Strategies may include:
  - Long term purchases (over 1 year hold)
  - Short term purchases (under 1 year)

- Trading (securities purchased and sold within 30 days)
- Short sales in individual securities
- Margin (or leverage – borrowing from your broker custodian, which increases your overall costs as you will pay interest on the margin loan)
- Option writing (covered options, uncovered and spreading strategies)
- Private funds, including the Fund (Fixed Opportunity Partners)

In addition, SCM has implemented an Investment Committee that determines the overall investment advice provided to our Clients. Members of the Committee include:

Stephen Chaffin, President

Jim Strawn, Vice President

Jay White, Vice President

John Carroll, Vice President

The Committee monitors all securities recommended to you, including:

- Equities
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Annuities
- Corporate Bonds
- Government Bonds and,
- Municipal Bonds

## **Risk of Loss**

Investments in securities carry the potential for a risk of loss of the assets that we manage for you.

To be clear: Your decision to invest in securities (and allow SCM to manage those assets) carries the potential for a loss of your invested amount or any appreciation of your holdings that have not been realized (those not sold to lock in the profit). Losses in your portfolio(s) under our management are a potential event that you should be prepared to bear.

We do not represent to you (or any Client), either directly or indirectly, a level of performance or a representation that our professional services will not result in a loss to your invested assets. We do our best as a fiduciary and professional investment adviser to manage your assets consistent with your stated investment goals and objectives (through our portfolio management services). However, losses cannot be prevented.

## **Item 9 - Disciplinary Information**

Smith Capital Management has no disciplinary actions or events to report in this section. You may review the full public disclosure record for Smith Capital Management and Crews and Associates at the following website:

<http://www.finra.org/Investors/ToolsCalculators/BrokerCheck>.

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

As is disclosed in Item 5 of this Brochure, Rush Harding is the CEO and Director of Crews & Associates, a security broker dealer, State of Arkansas Registered Investment Adviser and insurance agency / broker.

As a result, Rush is a registered representative broker dealer and insurance agent of Crews.

These relationships create a potential conflict of interest between the interests of Rush Harding, SCM and Crews. Please see Items 4 and 5 above, and Item 12 below for additional details.

If the potential conflict of interest became an actual conflict of interest, the conflict of interest might impair our objectivity when providing planning recommendations to you, or when we are determining which broker or dealer to utilize for your specific security transactions. We try to mitigate these potential conflicts through the following:

- As required in the Investment Adviser's Act of 1940, we adhere to a fiduciary standard which requires IAs to act and serve a client's best interests with the intent to eliminate, or at least to expose, all potential conflicts of interest which might incline an investment adviser—consciously or unconsciously—to render advice which was not in the best interest of the IA's clients;
- We disclose to you through this Disclosure Brochure the existence of all material conflicts of interest, including the potential for our firm and its employees to earn compensation from the advisory services we provide to you (in addition to the advisory fees as described above). We disclose to you that you are not obligated to purchase recommended investment products from our employees in their separate capacities as RRs, Investment Adviser Representatives (IARs) or Insurance Agents or Rush Harding as a Broker of Crews;
- We monitor the security transactions placed for your account and conduct regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- We require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

We have adopted a Code of Ethics which identifies the standards necessary by regulation (and because it's good business) to protect the interests of our Clients (you).

The Code governs several areas of our business and is intended to mitigate potential conflicts of interests between our own interests (as a firm and as employees) and yours.

As a fiduciary investment adviser, we owe you a duty of loyalty, fairness and good faith. We also have an obligation to adhere not only to the specific provisions of the Code of Ethics, but to the general principles that guide the Code of Ethics.

As a result, you should know that we follow our own advice. Therefore, we may buy sell, short, or otherwise trade in the same securities (or products), or have positions in securities that we recommend to you, including investing in our own Private Fund.

Within our Code, we have the following Policies in place; they are applied equally to all employees:

- If a security is purchased or sold in an employee's account on the same day as a client of SCM, the more beneficial price on the transaction must be awarded to the Client. This prevents employees from benefiting from transactions placed on your behalf;
- Requires the pre-clearance of personal transactions in Initial Public Offerings or Private Placement Securities;
- May not buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his/her employment, unless the information is also available to the investing public;
- May not place their interests before yours.

Our Code also requires:

1. The maintenance and quarterly review of all securities holdings for SCM and any employee. The transactions are reviewed by our Chief Compliance Officer.
2. Employees to initially report (upon hire) and annually report:
  - a. All brokerage accounts
  - b. Securities holdings
  - c. Members of their household and
  - d. Any accounts or securities that they own or have beneficial ownership in
  - e. Any outside business activity (potential conflicts of interest)
    - i. Positions such as officer or director positions with other entities, including Crews

Additional Code Requirements:

1. Reporting of Gifts and Entertainment (above determined thresholds)

2. Places limits on political contributions by SCM and Employees (pay-to-play)
3. Remedial sanctions, including termination of employment, for individuals who violate our Code
4. Others

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by e-mail sent to [linda@smithcap.com](mailto:linda@smithcap.com), or by writing us at our principal place of business, listed in Item 1 of the cover page.

## **Item 12 - Brokerage Practices**

### **Recommendation of a Broker / Custodian**

SCM primarily recommends two broker dealers to serve as custodian to our advisory clients:

1. Crews & Associates (Little Rock, AR), and
2. Charles Schwab and Company (San Francisco, CA)

We participate in a program called the “Schwab Advisor Services” program sponsored by Schwab and made available to SCM (and other investment advisers). As a result, we receive economic benefit from Schwab which, in light of the services provided to us (at no cost for the services), is a potential conflict of interest.

We recommend Schwab and Crews because we have independently evaluated them in terms of the brokerage / custodial services that are available to our Clients. We have, as a result, determined that the following items are of value to both SCM and our Clients when compared to other brokers or custodians:

- Mix of brokerage execution services
- The types of securities that can be purchased or sold
- A large number of mutual funds at a load waived or no-load basis (no commission charges) with many on a no-transaction fee basis
- Competitive pricing and inventory for fixed income securities
- No charge for custodial services for assets
- Administrative and operational support services

However, despite our recommendation, you must independently evaluate these companies to determine if the services available from Schwab or Crews meet your needs as part of your decision in selecting your broker or custodian.

We also have clients who hold assets at Stephens Inc. (Little Rock, AR), and The Principal Group.

## **Discretionary Brokerage**

We have the authority to select the broker for your portfolio transactions in accounts that we manage for you. As with Investment Discretionary authority, you may restrict our brokerage activities on your behalf. However, our experience indicates that Clients typically do not restrict our brokerage activity (please see below).

## **Commissions**

Although the commission charges when placing trades through Schwab are “fixed” per our written agreement with Schwab, we may have the ability to negotiate price and commission on certain transactions. Schwab’s standard fee schedule for Clients with equities custodied at Schwab is:

- For account holders with \$1million or over in household assets, electronic equity pricing is \$8.95 per trade;
- For account holders with less than \$1million in household assets whose accounts are enrolled in eDelivery (electronic delivery of confirmations and statements), electronic equity pricing is \$8.95 per trade;
- For account holders with under \$1million in household assets whose accounts are not enrolled in eDelivery (eConfirm and eStatement), electronic equity pricing is \$19.95 for the first 1,000 shares plus \$.015 per share thereafter.

Trades executed / placed at Crews are “net” price (principal transactions) since they primarily involve fixed income securities. Therefore there is not a commission schedule, per se. Execution prices include a mark-up or mark-down.

To serve as an example, mark-ups on a 10-year government agency bond may be from \$5 to \$10 per bond (\$1,000) purchased. As a result, if we purchase 500 bonds for your account, the mark-up (or down) can be \$2500 to \$5000 on that transaction, or substantially less (due to price negotiation and “discounts” for larger transactions).

## **Types of Brokerage Activity**

### **1. Tradeaway Brokerage:**

We have the “discretionary” authority to pick brokers other than your primary custodian to execute your portfolio trades when we believe that is in your best interest. These types of transactions are called Tradeaway transactions.

There are a number of influences we consider when determining to use a broker other than your primary custodian to execute transactions for your account. The primary benefit is that using other brokers provides access to different inventories of securities (bonds) from underwriters or market makers, thus affording SCM opportunity to negotiate price and find securities that may not be available from your primary custodian.

Tradeaway transactions are typically executed on a principal basis. This means that when we are purchasing a corporate or municipal (or other bond) for your account the price received for the purchase or sale includes the commission (called a mark-up or mark-down) which is earned by the broker executing the trade. When commissions are included in the “price”, these are called Principal Transactions.

When the trade is “delivered” to your account, an additional “settlement fee”, generally called a Tradeaway Fee (e.g.\$15.00 to \$25.00 per account, per trade) may be charged by the custodian to “receive” the trade, post the transaction to your account and send the funds to the broker (from your account) to settle the transaction. When Tradeaway transactions are used, the Tradeaway fee is levied. It will be in addition to the mark-up or mark-down on the security.

## **2. Block Trading**

We may, but are not obligated to, aggregate the transactions of more than one client together with other clients in the same security.

We may block trades and execute those trades through your primary custodian or at other brokers or dealers.

Block trading derives certain benefits to the participating clients in the block, typically for fixed income, equity, exchange traded funds (ETFs), or similar securities. As mutual funds are purchased or sold at the previous day’s closing price, the benefits of block trading are not applicable.

Block trading the same security for multiple accounts is one method we can use to meet our fiduciary obligation of best execution, which is a concept and not a defined standard. When blocking transactions for multiple clients the size of the transaction is larger than placing all the transactions individually, which allows SCM to negotiate the price of the security within the spreads available at that time (a spread is the quoted bid and ask price of the security; bid price is what the buyer is willing to pay for the security, the quoted ask price is where a seller is willing to offer the security).

If multiple fills occur to complete the full block then all purchases are averaged to price and each participating client receives their full allocation at that average price.

## **3. Agency and Cross Transactions**

SCM may engage in Agency or Agency Cross Transactions for Clients. These types of transactions allow us to sell a bond (or thinly traded security) at a competitive price from one client, and purchase the security in the account of another client without having to go to the market to sell and then buy the security. You are providing your written consent to engaging in Cross Transactions through the advisory agreement we have with you.

## **4. Prohibited Brokerage Practices**



Soft Dollars: We do not participate in Soft Dollar transactions or services, where Client Commissions are utilized to generate “commission credits” available to SCM to pay for research and execution services.

Brokerage for Client Referrals: We do not direct or recommend brokers (or use brokers) in exchange for Client Referrals. We evaluate and use brokers (including Prime Brokers) as described above.

## **5. Trade Errors**

From time-to-time SCM may make an error in submitting a trade order on your behalf. When this occurs, SCM may place a correcting trade with the broker-dealer which has custody of your account. If an investment gain results from the correcting trade, the gain will remain in your account unless the same error involved other client account(s) that should have received the gain, it is not permissible for you to retain the gain, or we confer with you and you decide to forego the gain (e.g., due to tax reasons).

If the gain does not remain in your account and Charles Schwab & Co. Inc. (“Schwab”) is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, SCM will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in your account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in your account, they may be “netted.”

If we create the error, we will make you, the Client “whole”; this means you will not suffer an economic loss due to our error. SCM does not itself maintain a trade error account. We endeavor to catch all errors before settlement; typically errors are corrected by a simple cancel (of the error trade) and re-bill (or re-run of the trade as it should have been originally placed). Examples of errors include but are not limited to the following:

- Transactions or securities that:
- Are not legally authorized for an account;
- Are prohibited by investment policy or style;
- Are prohibited by the contract;
- Are placed in an incorrect account;
- Are placed for an incorrect amount;
- Include an incorrect security or transaction (buy v. sell or vice versa);
- Block trades that are incorrectly allocated;
- Others.

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

### **Reviews:**

Client accounts are reviewed monthly by the Advisor assigned to your account. Services may be provided by:

- Stephen Chaffin, President
- James Strawn, Vice President
- Jay White, Vice President, and
- John Carroll, Vice President

We will review your account for consistency between your investment goals (as compared to the current asset allocation). We also conduct, on a daily basis, account maintenance reviews looking at cash available for income needs; deposits or withdrawals into or from an account; interest payments received (or due); bond maturities and trade settlements, etc.

We monitor securities (equities and equivalents, mutual funds and fixed income securities) maintained in our core portfolio (models).

Financial Plans are not reviewed, per se; however, when Client meetings occur, topics covered under our portfolio management / financial planning services may be reviewed as necessary.

We recommend at least an annual, in-person meeting with all of our Clients.

### **Reports:**

You will receive a report on a monthly basis directly from your qualified and independent third party custodian. These reports from Schwab, Crews and the other custodians who may hold your assets summarize all trading activity for the month, contributions and withdrawals, management fee deductions, as well as holdings and valuations of the securities.

On a quarterly basis, SCM generates a consolidated statement providing a detailed rate of return (performance) of your portfolios, as well as a consolidated summary of holdings and the quarter-end value of the securities. You may receive our reports more frequently should you request.

For taxable accounts, detailed gain or loss reports, management fee summary reports, and 1099 reconciliation services are provided annually.

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

### **Client Referrals:**

SCM previously participated in the Schwab Advisor Network, a service by Schwab that is designed to help investors find an independent (to Schwab) investment advisor. Although SCM is not currently participating in the program, SCM manages assets for accounts that were referred to us previously through this Network.

Schwab does not supervise SCM and has no responsibility for SCM's management of any introduced Client portfolio (or other services of SCM). SCM pays Schwab a participating fee on all referred client accounts that are maintained in custody at Schwab for as long as the account remains with Schwab. The participation fee is billed to SCM quarterly and may be increased, decreased or waived by Schwab at Schwab's sole discretion.

SCM charges clients referred by Schwab the same fee schedule(s) as described above (fees are not increased through the Schwab Advisory Network) when compared to Clients we obtain directly.

As stated previously, Schwab does not charge SCM's Clients who have assets custodied at Schwab separate custodial fees. However, Schwab does earn compensation from you in the form of commissions or other transaction-related compensation on securities traded, executed or held at Schwab, including 12b-1 fees, sub-agent transfer fees, and similar compensation.

Schwab also receives a fee for clearance and settlement of trades executed on a Tradeaway basis, which may or may not be lower than the commission charged at other broker dealers. Schwab's Tradeaway fee (currently \$15.00 per account, per settlement) is separate from and in addition to the other broker dealer's fees.

### **Additional Compensation:**

An officer and investors of Chasc Inc, the parent company of SCM, is licensed as RRs, IARs and Insurance Agents with Crews (where the officer of Chasc Inc. also serves as the Chief Executive Officer at Crews). As a result, these individuals (Rush and Steve) are the "registered representative broker dealers of record" for SCM client accounts "held" at Crews as a broker dealer.

This means that these individuals may personally earn a portion of the compensation from trades placed on your behalf by SCM at Crews (a portion of the mark-up and mark-down on principal transaction). This additional compensation, if any, is not credited against the advisory fees you are charged (and that you pay) by SCM.

SCM participates in the Schwab Advisor Services program provided to independent investment advisers. As a participant, Schwab provides SCM and our Clients certain benefits that we would otherwise not receive if we were not part of the program.

These benefits include:

- Access to securities that are not typically available to non-institutional investors;
- Access to institutional trading, operations and services;
- Brokerage, custodial and information services;
- Software and technology that allow us to review Client accounts and trade electronically via Schwab platforms;
- Pricing information, market data and related information;
- Fee paying services of our advisory fees (from Client accounts);
- Back-office support, recordkeeping, duplicate confirmations / statements and reconciliation services;
- Additional services provided may include:
  - Consulting;
  - Publications or presentations on practice management information technology;
  - Business management;
  - Regulatory compliance and marketing;
  - Or the availability of these services to SCM at discounted fees.

We also receive benefits from Crews & Associates, including, but not limited to:

- Trade executions;
- Pricing information and other market data;
- Direct debit of our advisory fees from your accounts;
- Assistance with back office functions;
- Recordkeeping and client reporting;
- Consulting.

We do not pay Crews or Schwab additional compensation to derive these benefits.

## **Item 15. Custody**

SCM has “custody” of the funds and securities of the private Fund (to whom we act as investment adviser and managing member).

Although we have special and specific regulatory requirements related to custody, we also have the Fund subject to a financial audit by a public accounting firm registered with and supervised by the PCAOB (Public Company Accounting Oversight Board). A copy of the financial audit is provided to each Limited Member (investor) as required by SEC rules.

For all our Clients who have their assets held at a qualified, third party custodian, the following apply:

- You should receive, directly from your qualified custodian, monthly account statements showing all transactions in your brokerage or bank account (debits, credits, payments, and related transactions).
- We recommend and encourage you to carefully review these statements as this is your money or other assets held in custody for you by these third parties.
- In addition, you receive (as indicated above) from SCM a quarterly report showing the holdings in your account(s) under our Investment Management Services.
- We encourage you to compare the account statements from your bank, broker or other qualified custodian to those quarterly reports we send to you.
- Finally, should you NOT receive your statements from your qualified custodian(s) (bank, broker or trust company), please contact us immediately.

#### **Item 16. Investment Discretion**

As outlined in our Advisory Agreement, SCM has discretionary investment authority for our Clients. This means that we may purchase and sell securities for you without obtaining your consent to each transaction.

For some clients, our authority to trade securities may be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

We may, but are not obligated to, consider tax implications on purchase or sale decisions.

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

Clients of SCM may designate us to vote proxies of mutual fund companies and/or voting stock of companies held in a client's portfolio. This authority is granted in the Advisory Contract we have with you. SCM casts such proxy votes for the sole purpose of extending added service to clients of SCM. We will review the information and advise you if there is any potential conflict of interest in our voting the proxy on your behalf. If a potential conflict of interest exists, we will notify you and request your consent to vote on your behalf. If no such conflict of interest exists, we will vote the proxy in the manner that we feel is in the best interest of our clients.

We generally receive one ballot from each custodian (rather than individual ballots for each client) and will reconcile the share quantity on the ballot to our records. We do have the capability to segregate a client's votes from those of other clients if necessary.

We maintain a file of all proxy related materials. These records are available to our Clients upon request. You may request a copy of our Proxy Voting Policies and Procedures by e-mail sent to [linda@smithcap.com](mailto:linda@smithcap.com), or by writing us at our principal place of business, listed in Item 1 of the cover page.

#### **Item 18. Financial Information**

We do not have any material financial situation or condition that is likely to impair our ability to provide our services under the written agreement you have with us.

## **Part 2B of Form ADV: *Brochure Supplement***

### **Item 1 – Cover Page**

**Stephen Chaffin**  
Smith Capital Management  
Pavilion Centre  
8315 Cantrell Road, # 130  
Little Rock, AR 72227  
(501)-228-0400

March 11, 2011

**This brochure supplement provides information about Stephen Chaffin that supplements the Smith Capital Management Part 2 A brochure. Please contact Linda Bass at [linda@smithcap.com](mailto:linda@smithcap.com) to request a copy of the brochure or if you have any questions about the contents of this supplement.**

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

### **Item 2. Educational Background and Business Experience**

Year of birth: 1957

#### Education:

BA, Banking and Finance, University of Arkansas, 1980

#### Business Background:

President, Investment Adviser Representative, Chairman of the Investment Committee  
Smith Capital Management  
January, 1996 to present

Mr. Chaffin began his investment career with Merrill Lynch & Co. where he worked as a retail account executive. In 1988 he was recruited to Dean Witter as an institutional broker. In 1990, Mr. Chaffin joined the Downtown Partnership, an economic development group made up of business and civic groups, as the Executive Director. Mr. Chaffin joined Smith Capital Management in January of 1996 where he is on the investment committee and manages the fixed income portfolios. Mr. Chaffin and three other businessmen purchased Smith Capital Management from Bill Smith in July of 2000. Mr. Chaffin is the largest shareholder.

**Item 3. Disciplinary Information**

Stephen does not have disciplinary history to disclose.

**Item 4. Other Business Activities**

Stephen is not involved in outside business activity.

**Item 5. Additional Compensation**

Stephen does not receive, directly or indirectly any other compensation from advice provided to Clients of SCM.

**Item 6. Supervision**

Stephen is the President of Smith Capital Management and, therefore, is the supervisor of those who provide investment advice to Clients (he also chairs our Investment Committee). He may delegate supervisory responsibilities to various groups within SCM, including Operations and Compliance, however, the responsibility of supervision is with Stephen.

## **Part 2B of Form ADV: *Brochure Supplement***

### **Item 1 – Cover Page**

#### **Jim Strawn**

Smith Capital Management  
Pavilion Centre  
8315 Cantrell Road, # 130  
Little Rock, AR 72227  
(501)-228-0400

March 11, 2011

**This brochure supplement provides information about Jim Strawn that supplements the Smith Capital Management Part 2 A brochure. Please contact Linda Bass at [linda@smithcap.com](mailto:linda@smithcap.com) to request a copy of the brochure or if you have any questions about the contents of this supplement.**

**Additional information about Jim Strawn is available of the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

### **Item 2. Educational Background and Business Experience**

Year of birth: 1943

#### Education:

BSBA, University of Arkansas, Little Rock, AR, 1964

#### Business Background:

Vice President, Investment Adviser Representative, Investment Committee Member  
Smith Capital Management  
June, 1996 to present

Jim's business history includes ownership and operation of a retail furniture company (22 years), commercial mortgage brokerage and real estate development (6 years) and partial ownership and development of Electronic Imaging Services, Inc., a computer output service bureau (9 years). In August 1997, Electronic Imaging Services, Inc. became a wholly owned subsidiary of Vestcom International, a publicly owned company based in Lindhurst, New Jersey. Mr. Strawn joined Smith Capital Management in June of 1996 as a Financial Advisor.

### **Item 3. Disciplinary Information**

Jim does not have disciplinary history to disclose.



**Item 4. Other Business Activities**

Jim is not involved in outside business activity.

**Item 5. Additional Compensation**

Jim does not receive, directly or indirectly any other compensation from advice provided to Clients of SCM.

**Item 6. Supervision**

Jim is supervised by Stephen Chaffin, President of Smith Capital Management. Stephen, as the Chairman of the Investment Committee is engaged consistently with Jim (who is a member of the investment committee). This engagement through the investment committee is how Stephen conducts his supervision of Jim and the advisory services provided to Clients.

You can contact Stephen at 501-228-0040 if you have any questions on Jim or his supervision.

## **Part 2B of Form ADV: *Brochure Supplement***

### **Item 1 – Cover Page**

#### **Jay White**

Smith Capital Management  
Pavilion Centre  
8315 Cantrell Road, # 130  
Little Rock, AR 72227  
(501)-228-0400

March 11, 2011

**This brochure supplement provides information about Jay White that supplements the Smith Capital Management Part 2 A brochure. Please contact Linda Bass at [linda@smithcap.com](mailto:linda@smithcap.com) to request a copy of this brochure or if you have any questions about the contents of this supplement.**

**Additional information about Jay White is available of the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

### **Item 2. Educational Background and Business Experience**

Year of birth: 1970

#### Education:

BBA, University of Arkansas, Little Rock, AR, 1992

#### Business Background:

Vice President, Investment Adviser Representative, Investment Committee Member  
Smith Capital Management  
August, 2001 to present

Mr. White joined First Commercial Corporation (now Regions Financial Corporation) in 1992 as a Financial Analyst in the Finance Department. In 1993, he moved to First Commercial Capital Management (now Morgan Asset Management) where he served as Portfolio Manager. In 1995, he was promoted to Vice President, where he served until 2000. In 2000, he joined Morgan Keegan Trust Company, FSB as Senior Vice President and Trust/Investment Officer. Mr. White is a member of the CFA Institute and the Financial Planning Association. Mr. White joined Smith Capital Management in August of 2001 as a Financial Advisor.

### **Item 3. Disciplinary Information**

Jay does not have disciplinary history to disclose.

**Item 4. Other Business Activities**

Jay is not involved in outside business activity.

**Item 5. Additional Compensation**

Jay does not receive, directly or indirectly any other compensation from advice provided to Clients of SCM.

**Item 6. Supervision**

Jay is supervised by Stephen Chaffin, President of Smith Capital Management. Stephen, as the Chairman of the Investment Committee is engaged consistently with Jay (who is a member of the investment committee). This engagement through the investment committee is how Stephen conducts his supervision of Jay and the advisory services provided to Clients.

You can contact Stephen at 501-228-0040 if you have any questions on Jay or his supervision.

## **Part 2B of Form ADV: *Brochure Supplement***

### **Item 1 – Cover Page**

**John Carroll**  
Smith Capital Management  
Pavilion Centre  
8315 Cantrell Road, # 130  
Little Rock, AR 72227  
(501)-228-0400

March 11, 2011

**This brochure supplement provides information about John Carroll that supplements the Smith Capital Management Part 2 A brochure. Please contact Linda Bass at [linda@smithcap.com](mailto:linda@smithcap.com) to request a copy of this brochure or if you have any questions about the contents of this supplement.**

**Additional information about Jim Strawn is available of the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

### **Item 2. Educational Background and Business Experience**

Year of birth: 1957

Education: BA, Marketing, University of Arkansas at Fayetteville, 1980

#### Business Background (previous 5 years):

Vice President, Investment Adviser Representative  
Smith Capital Management  
May, 2009 to present

After three years of traveling sales out of Kansas City, Mr. Carroll returned to Little Rock in 1983 and entered the investment industry with Merrill Lynch. In 1986, Mr. Carroll joined Stephens, Inc. in an advisory and trading capacity, served as a Senior Vice President, and had a 22 year career building institutional sales and trading effort. Mr. Carroll joined Smith Capital Management in May of 2009 as a Financial Advisor.

### **Item 3. Disciplinary Information**

John does not have disciplinary history to disclose.

### **Item 4. Other Business Activities**

John is not involved in outside business activity.

**Item 5. Additional Compensation**

John does not receive, directly or indirectly any other compensation from advice provided to Clients of SCM.

**Item 6. Supervision**

John is supervised by Stephen Chaffin, President of Smith Capital Management. Stephen, as the Chairman of the Investment Committee is engaged consistently with John (who is a member of the investment committee). This engagement through the investment committee is how Stephen conducts his supervision of John and the advisory services provided to Clients.

You can contact Stephen at 501-228-0040 if you have any questions on John or his supervision.