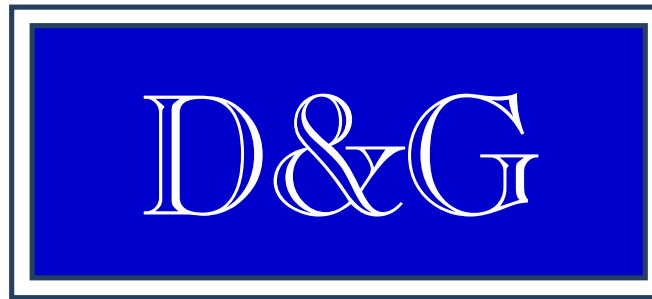


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DAVIDSON & GARRARD, INC.
Registered Investment Advisors

Part 2A of Form ADV: Firm Brochure



Davidson & Garrard, Inc.

Registered Investment Advisers

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This brochure provides information about the qualifications and business practices of Davidson & Garrard, Inc. (referred to in this brochure as "D&G"). If you have any questions about the contents of this brochure, please contact us at 434-847-6600 or tpettyjohn@dg-g.com or tjones@dg-g.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, (referred to in this brochure as "SEC") or by any state securities authority.

Additional information about D&G is also available on the SEC's website at www.adviserinfo.sec.gov

D&G refers to itself as a "registered investment adviser". This registration, however, does not imply a certain level of skill or training.



There have been no material changes to this brochure since our last annual update which was dated March 30, 2011.

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D&G is an independently owned SEC registered investment advisory firm which was incorporated, registered, and commenced conducting business in 1987. Our principal office is located in Lynchburg, Virginia at 810 Main Street. We have an additional office which opened in February 2012 located at 15 Randolph Street, Lexington, Virginia. D&G provides discretionary investment management services to individuals and institutional clients (other than investment companies). Examples of institutional clients are: profit-sharing plans, trusts, estates, charitable organizations, and corporations or business entities, which may be non-profit or for profit. The firm has thirteen employees comprised of nine investment professionals and four support staff. After the opening of the Lexington Office, the firm has fourteen employees comprised of nine investment professionals and five support staff. Four of the professionals are stockholders of the firm whose ownership aggregates approximately 42% of the firm. We do not have any stockholder who is considered to be a principal owner by the SEC definition of owning 25% or more of D&G stock. No stockholder owns more than 17% of the company stock or has control of a majority of voting shares.

D&G's services involve investment management of clients' assets including purchases, sales and exchanges of a range of investments on a fully discretionary basis, taking into consideration our clients' risk tolerances, liquidity needs, time horizons, tax considerations, return expectations, overall investment objectives and any other considerations which are pertinent. Certain employees are Certified Financial Planners and in that capacity, D&G may provide fee based financial planning to its customers.

Types of investments managed by D&G include, but are not limited to, the following: exchange listed securities such as stocks and exchange traded funds, over-the-counter traded securities, warrants, corporate debt securities, certificates of deposit, municipal securities, mutual fund shares, US Government securities, options where specifically allowed by the client, partnerships such as real-estate and oil and gas interests and foreign American Depositary Receipts (ADRs). An exchange traded fund is an investment fund traded on a stock exchange, and holds assets such as stocks, commodities, or bonds. It trades at approximately the same price as the net asset value of its underlying assets and usually tracks an index. Warrants and rights are securities that entitle the holder to buy the underlying stock of the issuing company at a fixed exercise price until the expiration date. An option is a financial instrument that establishes a contract between two parties concerning the buying or selling of an asset at an established price. ADRs represent ownership in the shares of a non-U.S. company whose stock trades in U.S. financial markets.

Investments commonly referred to as "Alternative Investments" may also be utilized. An Alternative Investment is an investment product other than the traditional investments of stocks, bonds, cash, or property. Examples may include: Inflation Protection Securities, Market Neutral Securities, Global Real Estate Securities, Gold and Precious Metal Securities, Global Infrastructure Securities, Commodity Securities, Developed Markets Equity and Fixed Income Securities, Emerging Markets Equity and Fixed Income securities, and Floating Rate Securities. Market Neutral Securities seek to profit from both increasing and decreasing market prices to limit market risk. Alternative Investments may be executed through the purchase of mutual funds and exchange traded funds whose investments track these asset classes.

D&G seeks to tailor portfolios to meet the objectives of our clients. We may, where directed by the client, manage several accounts as a relationship by combining separate accounts of family members or business affiliations. We ask our clients to discuss their investment needs and require them to complete a written Investment Policy Statement which details information relating to their specific financial objective, including their investment objective, risk tolerance, time horizon, income requirements, tax issues, and unique needs or holdings issues. Additionally, clients complete a questionnaire exploring their financial profile. Based on all of this information, D&G analyzes the suitability of those objectives and tailors advice and investment decisions based on this information. Clients may impose restrictions on investing in certain securities or types of securities and may specifically request that certain existing holdings not be sold.

It is also permissible for our clients to have some control over individual holdings in their portfolios. Our clients, for instance, could request us to purchase or sell a security that has not been approved by the investment committee. A client could also direct D&G to hold a larger or smaller percent of a holding than generally held firm-wide. The request may be made verbally or in writing. In these instances we will disclose to our client the inherent risks in directing investment choices or weightings not approved by the D&G investment team and D&G must believe that the client clearly understands the risk. Verbal requests are followed with written communication to confirm the directed action.

In some instances D&G is retained under a wrap fee arrangement. In a wrap fee arrangement a client is charged a specified fee, or fees not based directly on transactions in a client's account, for investment advisory services and execution of client transactions. In these all inclusive fee instances a broker recommends D&G, pays the management fees on behalf of the client, executes the client's portfolio transactions without commission charges, monitors D&G performance, and may also act as custodian or provide some combination of these or other services. When a client account is managed under a wrap fee arrangement, we do not manage the account differently from other accounts with similar investment objectives. Wrap fees paid by the client include both brokerage fees as well as D&G investment management fees. D&G



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o fee as payment for our investment services. Typically, wrap fee arrangement is the same as for our other clients.

In evaluating a wrap fee arrangement, our clients should understand that brokerage commissions are not negotiated by D&G. Trades will be generally executed only with the wrap fee broker. Trading with an alternative broker could involve additional brokerage or commission costs. In evaluating a wrap fee arrangement the client should evaluate the amount of portfolio activity and then attempt to value the other services provided by the wrap fee broker such as custodial services and portfolio monitoring. Then the client should determine if the wrap fee would exceed the combined cost of services assuming D&G were free to choose the broker to execute portfolio transactions. D&G manages client accounts subject to wrap fee arrangements with the following firms: Dain Rauscher, Davenport & Co., Robert W. Baird & Co. Inc., Schwab Institutional (a division of Charles Schwab & Co.), Scott & Stringfellow, Inc., Stifel Nicolaus, UBS Financial Services, Wells Fargo Advisors, and Morgan Stanley Smith Barney.

Accounts managed by D&G are managed on a discretionary basis. However, there may be specific assets within accounts where the client has given D&G specific instructions regarding those assets. No funds are managed under a total non-discretionary basis. Total assets under management as of 12-31-11 were 439.3 Million.

D&G is compensated for our services through fees paid by the client or in the case of certain wrap fee arrangements, by the wrap fee broker on behalf of the client. The Fee schedule is as follows:

Annual fees on a sliding scale are as follows: 1.0% on first \$1,000,000; 0.875% on next \$2,000,000; 0.75% on all assets above \$3,000,000. There is a minimum annual fee of \$4,000.

Twenty-five percent (25%) of the appropriate annual fee is billed and payable quarterly. Fees are based on the market value of the managed assets as valued at the end of a quarter period (three months). Fees are paid in arrears and our clients pay no management fees to D&G in advance other than one exception. D&G manages some accounts that are in Scott & Stringfellow, Inc.'s Spectrum wrap program. The fee for these accounts is calculated based on the calendar quarter-end market value of the account and is prepaid to Scott & Stringfellow, Inc. for the next quarter's wrap fee. Scott & Stringfellow, Inc. forwards the management fee portion of the wrap fee to D&G on a quarterly basis. In the event an account closes during a quarter, D&G is billed by Scott & Stringfellow for the pro-rata reimbursement of the prepaid fee.

The client may choose to have fees deducted from his/her custodial account or request that D&G bill the client directly.

Fees may be negotiable on a limited basis.

Investment Management Service Agreements (referred to in this brochure as "advisory contracts") between D&G and its clients may be terminated by either party upon thirty days' written notice without penalty. In the event of termination prior to the end of the quarter, the fee for services during that quarter will be charged on a pro-rated basis.

No increase in fees can be effective until D&G gives 90 days written notice of the proposed increase.

Clients will incur brokerage and other securities transaction costs associated with executing trades placed with brokerage firms. See Item 12 "Brokerage Practices" for further explanation regarding brokerage fees and transaction costs.

Clients may also pay custodial fees to the bank or broker who provides custody of their assets.



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Additional costs are incurred by clients when D&G invests a portion of its clients' assets in mutual and/or exchange traded funds. The mutual and exchange traded funds pay advisory fees to their investment advisers that reduce the net asset value of the funds' shares. Net asset value is the value of the mutual fund or exchange traded fund's assets less the value of its liabilities. Additionally, D&G bills its clients an advisory fee based on the value of their portfolios including mutual and exchanged-traded fund holdings. Therefore, clients pay two levels of advisory fees on the same pool of assets. They pay directly to D&G and indirectly through the management fees assessed on the mutual and exchange-traded funds held.

Brokerage firms may also assess accounts with annual service fees, most often charged for deferred tax accounts.

No employee of D&G accepts compensation for the sale of securities or other investment products.



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

D&G does not manage any accounts where fees are based on performance.



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Item 7 Types of Clients

D&Gø clients are primarily individuals and institutional clients (other than investment companies). Examples of institutional clients are: profit-sharing plans, trusts, estates, charitable organizations, and corporations or business entities, which may be non-profit or for-profit.

Although we have a preferred minimum account size of \$400,000, based on a wide variety of circumstances, we may accept an account of lesser size.

Item 6 Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

D&G utilizes different methods of analysis to evaluate prospective investments based upon the type of investment and the vehicle used to purchase that type of investment.

The three types of investments utilized by D&G can generally be described as:

- Domestic Equities (stocks)
- Domestic Fixed Income (bonds)
- Alternative Investments (described in Item 4 and purchased via mutual funds and exchange traded funds which track a particular asset class)

For equity analysis and selection, D&G employs fundamental analysis, as well as considering macroeconomic factors. The firm's fundamental analysis includes attention to a company's market and its size and growth rates, the company's product profile, management capabilities, and competitive advantages. We also consider the financial aspects of a company's performance, including growth rates, profit margins, cost structures, free cash flow, assets and earnings. The firm also reviews a variety of valuation measures, including price-to-earnings ratio, price-to-book value ratio, price-to-sales ratio, price-to-free cash flow, returns on equity and capital, and compares them to peer group valuations. The firm utilizes the above information to make judgments about a company's present equity valuation and potential return.

From a macroeconomic perspective, D&G closely follows developments in the US economy, including Gross Domestic Product (GDP) trends, employment levels, levels of manufacturing activity and government expenditures and deficits. GDP refers to the market value of all goods and services produced within a country in a given period. The firm also tracks actual and projected levels of corporate earnings as measured by the S&P 500, interest rate trends and fund flows into the equity and bond markets. We are also attentive to global political and financial events in both developed and emerging markets and their potential effects on investments.

Resources for analysis of existing approved equity holdings, new purchase ideas, or candidates for sale include direct access to company reports and filings, management presentations, and multiple sources of outside investment research. Macroeconomic review includes US government agencies, such as the Federal Reserve and Federal Reserve Banks, government agencies, and third party investment research. The research may come from analysts employed by brokerage firms, independent research firms, or more specialized service vendors such as Morningstar, Zachs, or Telemet. Morningstar, Zachs and Telemet are subscription based portfolio management tools which provide portfolio analysis and investment analyst reports. D&G also makes regular use of the internet and worldwide web as a source of investment information.

Domestic fixed income investments are reviewed and selected based upon an analysis of the credit worthiness of issuers by the major rating agencies (Standard & Poor's, Moody's and Fitch credit rating service agencies). At least one rating agency must give a particular bond an investment grade rating before D&G will consider the purchase. Investment grade means that a municipal or corporate bond has a relatively low risk of default.

If a particular bond issue meets the investment grade criteria, then, based upon client objectives, projections for the direction of interest rate movements and our desire for a "laddered" or successive year maturity schedule for the client, D&G may purchase the issue.

For Alternative Investments purchased through mutual funds and exchange traded funds, D&G will analyze the suitability of the prospective investment vehicles using data provided by independent rating services, such as Morningstar. Criteria for fund analysis may include, but will not be limited to, items such as expense ratios, liquidity, volatility, trading volume, and management tenure.

Investment Strategy

Investment strategy includes the processes and procedures used in guiding investment selection. D&G's established Investment Strategy involves:

- Review of current holdings and economic and financial markets outlook
- Evaluation of equity investments
- Research and selection of new investment ideas
- Implementation of investment decisions
- Assessment of sale candidates

Our investment process begins with our team of portfolio managers/analysts and our research-dedicated analyst(s) who form our investment committee. The committee meets daily to review and discuss timely news information as it applies to current holdings and outlook for the markets. The committee has a separate weekly meeting to discuss in detail D&G's portfolio management. That meeting begins with a top down review of the macroeconomic environment. Both domestic and international outlooks are examined. Asset allocation weightings and sector weightings are evaluated as the committee believes necessary and current approved holdings are reviewed. Current news on asset or stock positions will be discussed.

Evaluation of equity investments is a key element of our Investment Strategy. The core component of our equity portfolios and the equity portion of our balanced accounts are comprised of large market capitalization, high-quality stocks with attractive relative value. Market capitalization is the company's share price times the number of shares outstanding of the company. Relative value is determined through an analysis of a stock's own trading history, viewed separately and in the context of peer and market valuations.

D&G's core holdings typically have lower valuation characteristics (price-to-earnings, price-to-sales, price-to-book, price-to-free cash flow, etc.) and superior profitability ratios (Return on Equity, Return on Invested Capital, Earnings Growth, etc.) than their peers and/or the market. Large capitalization stocks have a market capitalization which exceeds \$5 billion. D&G may supplement its large-cap core holdings with exposure to quality mid-cap (\$1 to \$5 billion market cap) and small-cap (\$100 to \$999 million market cap) stocks. As a general rule, these holdings must meet the same valuation criteria as the large-cap holdings; however, some of these stocks may be classified as "special situations." These special situation stocks may or may not meet the firm's valuation criteria, but the investment thesis usually includes some special theme or catalyst that implies significant price appreciation potential and compelling risk/reward characteristics.

Our process involving research and selection of new investments begins with an investment idea. Independent ideas may be presented to the committee by a member and can come from any manner of sources available to the portfolio manager /analyst. Ideas may also be generated in committee meetings from discussions and sharing of information. Depending on group interest the committee may request that the research analyst collect available outside research on the idea. The research is then distributed to the portfolio managers for their individual review. Our screening and investigative process considers the risk and reward potential of an idea. A great deal of conversation occurs as we challenge ourselves and each other as to the viability of the purchase and the potential benefit to our clients. Risk of loss to our clients is seriously considered and evaluated. Finally a vote is taken. Agreed upon ideas are added to the approved holdings list.

Our process then leads to implementation of investing these assets in our clients' portfolios. Our clients are diverse and unique. They hire us for different reasons and objectives. Consequently investment portfolio structure planning occurs on a client by client basis. Investment strategy for each client must include an understanding and analysis of risk tolerance, return objective, and time horizon restrictions. We may recommend that a portfolio be broadly diversified across asset classes and within asset classes, and believe this strategy can decrease risk and volatility. However, some clients may choose a more traditional approach employing a portfolio mostly dedicated to U.S. equity and fixed income instruments with diversification occurring only within those asset classes and using cash as the portfolio risk reducer.

Portfolios with diversification among a range of asset classes may over time provide investors reduced volatility with acceptable returns. D&G's use of the asset allocation process for clients involves several steps and considerations including the aforementioned review of a client's risk tolerance, return objective, and time horizon restrictions. The firm then considers current market and economic conditions, and current pricing and valuation of various asset classes. Finally, D&G focuses on a broad range of asset classes suitable for investment, and assesses their past

relations. From these considerations, D&G prepares for target allocations to various asset classes that D&G believes will best achieve the client's overall investment objectives. Portfolio managers make tactical adjustments to allocations based on current economic and market conditions, and also engage in periodic rebalancing toward target allocations. The client's overall portfolio strategy is reviewed with clients on a regular basis, and adjustments made as necessary.

D&G utilizes and relies on a wide range of research and investment sources to assist in the development of its views on various asset classes, current economic and market conditions, and asset class allocations that help optimize portfolio performance and the achievement of client objectives.

As with its stock selection process, D&G's decision to sell is based upon its goal of maximizing gains and minimizing losses. Stocks are candidates for sale when they exhibit one or more of the following characteristics:

- Stock becomes fully valued
- Portfolio is fully invested and an existing holding can be replaced with a more promising stock
- Company fundamentals deteriorate
- Negative changes occur in a stock's investment thesis

Risk of Loss

Investing in securities involves risk and potential for loss. Our clients are apprised of investing risks and must be prepared to absorb losses should they occur. Based upon our investment process, we believe the following highlights types of investment risks to our clients:

- D&G does not visit companies to perform on-site research of stocks on our approved holdings list.
- Analysis of financial projections for specific companies may prove to be flawed.
- D&G relies on independent research and analytical resources to formulate its macro outlook for the world and national economies. Consequently, to the degree D&G may have relied upon flawed analysis or misguided forecasts from the independent sources in formulating investment strategy, D&G's investment results may suffer. Adverse consequences to our investment decisions can result.

Investing in international and/or emerging markets involves currency and political risks which are often unforeseen.



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There are no legal or disciplinary events, material or otherwise, which would affect our clients' or prospective clients' evaluation of D&G's advisory business or the integrity of D&G's management.

Item 10 Other Financial Industry Activities and Affiliations

Thomas W. Pettyjohn, Jr., a portfolio manager and stockholder of D&G, is a Director and Chairman of the Board of Bank of the James Financial Group, Inc. a publicly-held bank holding company based in Lynchburg, VA, which trades on the NASDAQ under the symbol BOTJ. Mr. Pettyjohn is also Chairman of the Board of Bank of the James, a subsidiary bank 100% owned by Bank of the James Financial Group, Inc. Mr. Pettyjohn has and may receive substantial compensation for providing his service to Bank of the James Financial Group, Inc.. Mr. Pettyjohn may from time to time be in receipt of material non-public information regarding Bank of the James Financial Group, Inc. Material non-public (inside information) is information about a company, either positive or negative, that will have a material effect/impact on the stock price when it is released to the public. Insiders, such as corporate officers and members of the board of directors, are not allowed to trade on material non-public information until it has been released to the public, since they would have an unfair advantage over other investors. Receipt by Mr. Pettyjohn of material non-public information would prevent D&G from implementing transactions in the stock of Bank of the James Financial Group, Inc. on behalf of its clients. Prior to the purchase or sale of Bank of the James Financial Group, Inc. stock, inquiry is made to Mr. Pettyjohn to determine whether he is in receipt of material non-public information which would prohibit a transaction in Bank of the James Financial Group, Inc. stock by D&G on behalf of its clients.

D&G has some clients who own BOTJ common stock. Restrictions related to the purchase or sale of this stock are explained above and in Item 11. D&G also maintains its operating and payroll account with Bank of the James. D&G does not believe that these relationships create a material conflict of interest to our advisory business other than as noted in Item 11. A description of the nature of this potential conflict and how D&G addresses it is explained in Item 11.

David J. Hansen, Portfolio Manager for D&G, is a Director of CornerStone Bank, N.A., a publicly-held national banking association. Mr. Hansen may receive substantial compensation for providing services to this bank. Mr. Hansen may from time to time be in receipt of material non-public information regarding CornerStone Bank, N.A. which would prevent D&G from implementing transactions in the stock of CornerStone Bank, N.A. on behalf of its clients. Prior to the purchase or sale of CornerStone Bank, N.A. stock, inquiry is made to Mr. Hansen to determine whether he is in receipt of material non-public information which would prohibit a transaction in CornerStone Bank, N.A. stock by D&G on behalf of its clients.



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in CornerStone Bank common stock. Restrictions related to the relationship are explained in Item 11. D&G does not believe that this relationship creates a material conflict of interest to our advisory business other than as may be noted hereinafter in Item 11. A description of the nature of this potential conflict and how D&G addresses it is explained in Item 11.

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

Rules and rule amendments under Section 204 of the Investment Advisers Act of 1940 require D&G to adopt and implement a written Code of Ethics. This Code of Ethics defines D&G's responsibility as a fiduciary and its responsibility to give professional, continuous and unbiased investment advice. A fiduciary duty is a legal and ethical relationship of confidence and trust regarding the management of assets for the benefit of D&G's clients rather than for our own profit. The Code of Ethics requires that all principals and employees of D&G conduct business in a manner to insure the following:

1. D&G does not engage in any transaction, practice or course of business that operates as a fraud or deceit upon any client or prospective client. D&G does not engage in any manipulative practice with respect to clients or prospective clients.
2. D&G affirmatively acts in the best interests of its clients and it discloses to clients those situations where a conflict to that duty could exist. There is a duty at all times to place the interest of our clients first.
3. D&G adopts, implements and timely reviews policies and procedures reasonably designed to prevent violations of the Investment Advisers Act, applicable federal securities laws, and all other applicable rules.
4. D&G accurately describes the full nature of its business practices in Form ADV and its amendments.
5. D&G acts with integrity, competence, dignity, and in an ethical and appropriate fiduciary capacity when dealing with the public, clients, prospects, employees, and fellow investment professionals.
6. D&G supervises and trains its employees to reduce the likelihood that they will violate any applicable laws and the firm's internal compliance programs.
7. D&G has adopted procedures reasonably designed to prevent access to non-public information about D&G's recommendations and trading activities, as well as information regarding client securities and transactions.

8. D&G's principals and employees must not take inappropriate advantage of their positions.
9. D&G's principals and employees understand the principle that independence in the investment decision making process is paramount.

Specifically, the Code of Ethics includes provisions related to standards of business conduct including the following topics: insider trading, personal securities transactions, gifts and entertainment, confidentiality, and service on boards of directors of publicly traded companies. Illegal insider trading refers generally to buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, non-public information about the security. Also, there are provisions related to specific reports which must be filed by all employees covering both securities holdings and transactions. These reports are monitored internally, and there are specific requirements for initial, quarterly and annual verifications of compliance.

D&G will timely provide a copy of its entire Code of Ethics to any client or prospective client upon request.

Employees of D&G who serve on a board of directors of a publicly traded company must be isolated from making investment decisions with regard to that company. As noted in Item 10, Thomas W. Pettyjohn, Jr. and David J. Hansen serve on the board of directors of two companies. As part of the protective barrier with respect to an investment decision relating to those two companies, D&G must receive an unsolicited written authorization from the client prior to buying or selling the stock of these companies. If D&G receives an unsolicited written request to buy or sell the stock, the individual serving on the board of directors must be approached by D&G to determine if he is in receipt of material non-public information, which if acted upon by D&G on behalf of its client, would constitute inside information. If there is no inside information, all directors of D&G (excluding any director who is serving as the director of a publicly traded company) must agree in writing that it is permissible to execute the requested trade. To further insure that no inside information is being utilized, D&G prefers to execute trades only within a two week period after the public communication by the company of its quarterly or annual earnings report.

It is permissible for employees of D&G to invest in the same securities that D&G recommends to its clients.

To aid in the prevention of an employee gaining a price advantage over a client in the purchase of a recommended security, employees must wait ten (10) trading days after the firm's initial or any reaffirmation of approval for the purchase of a recommended security. At the end of the ten (10) day restricted period, the firm's Investment Committee will review the firm's purchase of the recommended security during the ten (10) day period and will decide whether to extend the period for an additional restricted ten (10) day period. The firm's approval, reaffirmation, or extension action is noted in the Investment Committee minutes which are e-mailed to each employee and are housed in a minute book which is readily accessible to employees. Purchase of a security by an employee shall include any rights, warrants, options, and the writing of an option to buy or sell a security. With respect to the recommended sale of a security, employees must wait until all client sales have occurred prior to their own sale.

In order to assure fair treatment to clients, employees must refrain from executing a personal security transaction on a recommended security until all client orders are executed or withdrawn on that security for that day. This policy applies to employee security transactions outside of the ten (10) day blackout period. There are certain exceptions to this rule which apply to transactions which are so small that they will not impact the price of a stock. The policies described above are adopted by D&G to prevent the purchase or sale by D&G's employees of recommended securities at prices which are better or more advantageous than would be available to D&G's clients.

Item 12 Brokerage Practices

Broker Selection

Clients of D&G may independently choose and direct D&G to use a particular broker. Clients may also ask D&G for guidance in selection of a broker, or they may have an account which is not directed. In a non-directed account D&G has discretion to decide which broker should be utilized for the execution of trades.

To aid in the recommendation and selection of a broker, D&G has a Best Execution committee which meets semi-annually. The committee's responsibility is to evaluate, both qualitatively and quantitatively, the overall capabilities of the brokers utilized by D&G and its clients. With respect to qualitative factors, D&G analyzes the following factors:

- Execution
- Reputation
- Speed and predictability of trade details
- Clearance and settlement capabilities
- Trade error rate
- Ability and willingness to correct errors
- Willingness and timeliness to respond
- Distribution network
- Research capabilities

With respect to quantitative analysis, the Best Execution committee compiles data and analyzes reports which include the following information for the preceding six month time period:

- Commission dollars paid in aggregate to each broker
- The average commissions paid per share to each broker
- The quantity of shares traded with each broker
- A listing in order of highest average commissions paid by D&G clients to brokers

By utilizing all of the information from the above analyses, D&G is able to make an informed decision in the selection or recommendation of a broker.

Research and Soft Dollar Benefits

Discretionary commission dollars are sometimes used in soft dollar arrangements. Soft dollar trading arrangements permit D&G to trade through a broker that allows D&G to use commission dollars to pay for research services that benefit D&G. When D&G uses client brokerage commissions to obtain proprietary research or other research products or services, D&G receives the benefit of not having to pay cash for these services or products. However, only certain services and/or products are allowed to be purchased with soft dollars and are limited to those related to our investment decision making process. Because of this benefit, D&G may have an incentive to select or recommend a broker based on our interest in receiving research or research related products or services. This could be a conflict to our clients' interest in receiving most favorable execution. In addition, D&G could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage compensation with which to acquire products & services. D&G utilized two brokers, Albert Fried & Company, LLC and Charles Schwab & Co., Inc. for soft dollar trades in 2011. The majority of the Albert Fried trades are generated from accounts where custody resides at a banking institution instead of a broker. D&G intends to establish a soft dollar relationship with TD Ameritrade, Inc. during 2012. During 2011 D&G utilized soft dollars to pay for research services from the following companies.

- Telemet America: Provides investment research which includes corporate financial data, market data, news, charts and portfolio analytics.
- TheMarkets.com: Real-time research offering from Capital IQ, featuring content from the world's leading brokers and independent research providers.
- Zacks: An investment research firm focusing on equities earnings estimates and stock analysis.
- Morningstar Office: Advanced research capabilities and sophisticated in-depth mutual fund research.
- Theflyonthewall.com: Provides a live news feed for our approved equity universe, information on conference calls and information regarding company presentations.

It is possible that trades directed through Albert Fried, Charles Schwab, and T.D. Ameritrade, Inc. could cause the client to pay commissions higher than if directed elsewhere.

D&G may from time to time receive proprietary research, written research reports and analyst conference calls, from brokers where trades are executed. Scott and Stringfellow, Inc. is currently the only broker providing this service.

D&G uses soft dollar benefits to service all of its accounts and not just those accounts that paid for the benefits. D&G does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

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- Approving, modifying and monitoring soft dollar relationships
- Maintaining a listing of brokerage firms approved for soft dollar trading
- Approving the direction of client transactions to a particular broker in return for soft dollar benefits.

D&G's use of soft dollars is intended to comply with the requirements of Section 28(e) of the Securities Exchange Act of 1934. Section 28(e) provides a "safe harbor" for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. As required by Section 28(e), the firm will make a good faith determination that the amount of commission or other fees paid is reasonable in relation to the value of the brokerage and research services provided. That is, before placing orders with a particular broker, we generally determine, considering all the factors described below, that the compensation to be paid to Albert Fried, Charles Schwab, & TD Ameritrade, Inc. is reasonable in relation to the value of all the brokerage and research products and services provided by these brokers. In making this determination, we typically consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services and products in our performance of our overall responsibilities to all of our clients. In some cases, the commissions or other transaction fees charged by a particular broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research services or products might charge.

participant with certain brokers in a contractual arrangement where D&G shares a portion of its investment management fee and makes cash payments to these brokers for referring clients to D&G. Because of the new business which D&G may attract from these referral relationships, D&G may have an incentive to select or recommend brokers based on our interest in receiving client referrals. Selecting or recommending brokers based on our referral interest could conflict with our clients' interest in receiving most favorable trade execution.

As stated before, D&G only selects or recommends brokers based upon its qualitative and quantitative analysis of each broker and understands and implements its policy to obtain best execution for its clients.

Directed Brokerage

When a client enters into D&G's advisory contract the client is requested to determine whether he/she will authorize D&G to direct all equity brokerage to a specific broker. Not all Advisers require their clients to direct brokerage. D&G clients are not required to direct brokerage; however, if a client does direct us to use a particular broker, the client must complete, in writing, a D&G form entitled Directed Brokerage Authorization. When a client directs brokerage, D&G may not be able to achieve most favorable execution for client transactions. This can occur because of the following:

- D&G may not be able to include these client transactions with other non-directed clients in an aggregated order. Therefore they may lose the potential benefit of superior price and commission rate of the combined order.
- A client may pay higher commissions based on the arrangement between D&G and the broker prior to the client's contract inception.
- A client may have negotiated a commission arrangement directly with the broker which is less favorable than D&G's commission arrangement with that broker.
- D&G typically places all electronic trades first and then places phone and fax orders. Depending on the choice of broker and the broker's trading technology, the sequence of order processing could negatively impact the execution price of a transaction.

Other Brokerage Matters

D&G participates in the institutional advisor program, TD Ameritrade Advisor Direct (öAdvisor Directö), offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA (öTD Ameritradeö), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. D&G receives some benefits from TD Ameritrade through its participation in the Program. (Please see disclosure under Item 14).



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an advisor program Schwab Advisor Network® (the "Network") and Charles Schwab & Co., Inc., an unaffiliated SEC-registered broker-dealer and FINRA member. Charles Schwab & Co, Inc. offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. D&G receives some benefits from Charles Schwab & Co., Inc. through its participation in the Service (Please see the disclosure under Item 14).

D&G may execute Over the Counter (OTC)/ non-exchange traded securities transactions on an agency basis. An agency basis is a form of compensation to a broker through commissions that are established by bids submitted by different brokerage firms. In these circumstances, advisory clients incur two transaction costs for a single trade: a commission paid to the executing broker plus the market maker mark-up/down. A market maker is a broker-dealer firm that accepts the risk of holding a certain number of shares of a particular security in order to facilitate trading in that security. Mark-up/down is the gap between bid to buy and ask to sell prices of a stock or other security which is included in the price of the security when the security is purchased or sold.

As indicated in Item 5, D&G invests a portion of its clients' assets in mutual and exchange-traded funds. The mutual and exchange-traded funds have internal operating expenses and investment management fees. They also pay advisory fees to their internal investment advisers that reduce the net asset value of the funds' shares. D&G does not receive any compensation from mutual fund companies or exchange traded fund companies.

Aggregation

When feasible, D&G aggregates purchases and sales into a single transaction for all clients custodied at a particular broker or custodian. The resulting benefit, if any, is allocated pro-rata among all the participants of the aggregated trade. Broker selection could affect the availability of participation in trade aggregation.

It is the responsibility of each portfolio manager to conduct a full and thorough review of his or her accounts on a quarterly (at minimum) basis. All clients are assigned a co-portfolio manager or assistant portfolio manager. The review involves evaluating the portfolio holdings and all asset weightings for consistency with the investment policy statement and consequent investment strategy. Additional attention is given to the holdings mix to ensure diversification objectives are being met. This is usually done without the assistance of other portfolio managers in the firm. The approval of new stock purchases, stock sales, or a material change in market or economic conditions may trigger an immediate review of each client's account. Portfolio managers' knowledge of a change in financial condition or financial objectives for a specific account will also trigger a review of the portfolio. Monitoring changing market conditions, company-specific developments, and economic data is a central part of the portfolio management team's day to day work.

D&G sends quarterly internally generated account statement reports to clients (a Portfolio Appraisal which lists holdings and Portfolio Summary which breaks out asset classes and market sectors) as well as any specific comments the portfolio manager deems important to the account. D&G provides a written investment commentary along with the written correspondence to the client. Some clients do not receive quarterly reports when the client and the portfolio manager have agreed that statement reports will be provided on a less frequent basis. In other instances, rather than mailing portfolio reports to the client, the portfolio manager will meet with the client in person to review the reports (or by conference call with emailed electronic copies of reports).

Clients also receive a portfolio statement from their custodian on a monthly basis. Depending on the custodian, clients may also have on-line access to view their accounts.

Item 14 Client Referrals and Other Compensation

D&G has contractual arrangements with several business organizations to which D&G makes cash compensation payments for referring clients to D&G such as:

- Charles Schwab & Co., Inc.
- TD Ameritrade
- DDH Asset Management, LLC
- Infinex Investments, Inc.

Charles Schwab & Co., Inc.

D&G receives client referrals from Charles Schwab & Co., Inc. (‘‘Schwab’’) through D&G’s participation in Schwab Advisor Network® (‘‘the Service’’). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with D&G. Schwab does not supervise D&G and has no responsibility for D&G’s management of clients’ portfolios or D&G’s other advice or services. D&G pays Schwab fees to receive client referrals through the Service. D&G’s participation in the Service may raise potential conflicts of interest described below.

D&G pays Schwab a Participation Fee on all referred clients’ accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee arrangement is based upon the size of the managed account and is as follows:

<u>Average Billable Assets</u>	<u>Rate Per Annum</u>
\$0 - \$2 million	0.25%
Over \$2 million - \$5 million	0.20%
Over \$5 million- \$10 million	0.15%
Over \$10 million	0.10%

For accounts established prior to January 1, 2007, D&G pays an annual Participation Fee of 0.15%.

All Participation Fees paid by D&G to Schwab are payable quarterly and such Participation Fees may be increased, decreased, or waived by Schwab from time to time. D&G pays Schwab the Participation Fee for so long as the referred client’s account remains in custody at Schwab. The Participation Fee is paid by D&G and not by the client. D&G has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs D&G charges clients with similar portfolios who were not referred through the Service.

Schwab Custody Fee if custody of a referred client's assets in the account are transferred from Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Advisor generally would pay in a single year. Thus, D&G will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of D&G's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, D&G will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit D&G's fees directly from the accounts.

For accounts of D&G's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from D&G's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealers' fees. Thus, D&G may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. D&G nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for D&G's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

TD Ameritrade

D&G participates in TD Ameritrade's institutional customer program and D&G may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between D&G's participation in the program and the investment advice it gives to its clients, although D&G receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving D&G participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to D&G by third party vendors.



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business consulting and professional services received by products and services made available by TD Ameritrade

through the program may benefit D&G but may not benefit its client accounts. These products or services may assist D&G in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help D&G manage and further develop its business enterprise. The benefits received by D&G or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, D&G endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by D&G or its related persons in and of itself creates a potential conflict of interest and may indirectly influence D&G's choice of TD Ameritrade for custody and brokerage services.

D&G may receive client referrals from TD Ameritrade through its participation in AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, D&G may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with D&G and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise D&G and has no responsibility for D&G's management of client portfolios or D&G's other advice or services. D&G pays TD Ameritrade a Solicitation Fee for each successful client referral. D&G pays TD Ameritrade a Solicitation Fee which is 25% of the advisory fee that the client pays to D&G. The aggregate minimum annual fee to TD Ameritrade is \$10,000. For accounts established prior to July 1, 2010, D&G pays Ameritrade a Solicitation Fee which is 15% of the advisory fee that the client pays to D&G. D&G will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by D&G from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired D&G on the recommendation of such referred client. D&G will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients.

D&G's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, D&G may have an incentive to recommend to clients that the assets under management by D&G be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, D&G has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. D&G's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

DDH Asset Management, LLC

D&G additionally has an existing arrangement with DDH Asset Management, LLC (öDDHö). DDH, through certain of its agents, may refer clients to D&G. Some members of DDH are minority stockholders in D&G. The members of DDH are not employees, officers, or directors of D&G and DDH does not have any other affiliation with D&G. DDH does not supervise D&G and has no responsibility for D&G's management of client portfolios. D&G pays DDH a fee for the first four calendar quarters in which D&G serves as such client's investment adviser. The fee is equal to 40% of the fee D&G receives from the referred client. Thereafter, D&G pays DDH an ongoing fee equal to 10% of advisory fees received by D&G. D&G does not presently charge clients referred by DDH a fee higher than D&G's published fee schedule. However, in its discretion D&G may, with appropriate disclosure to a client, charge higher fees to its clients under this referral arrangement. There are also instances where clients of D&G may use DDH for tax preparation services and D&G may pay DDH for these services on the client's behalf. The payment of any of these fees may create a conflict of interest with respect to DDH's recommendation that a client select D&G as the client's advisor. The client is not charged an additional amount in advisory fees as a result of this arrangement.

Infinex Investments, Inc.

D&G also has an existing relationship with Infinex Investments, Inc., (öInfinexö), a broker and investment adviser registered with the SEC. Infinex may refer its retail clients and other investors to D&G for investment management services. Infinex is independent of and unaffiliated with D&G. Infinex does not supervise D&G and has no responsibility for D&G's management of client portfolios or D&G's other advice or services. D&G pays Infinex an annual fee which is one-half of the annual fee charged by D&G to its clients with a minimum fee of one half of one percent. In some instances the overall fee to the client may be higher than fees paid by clients of D&G under its published fee schedule.

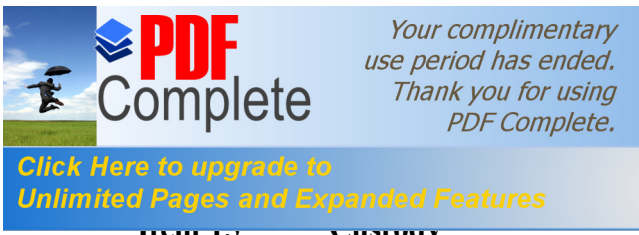


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D&G's referral program with Infinex may raise potential conflicts of interest. Infinex may refer clients to investment advisers that encourage their clients to custody their assets at Infinex and whose accounts are profitable to Infinex. Consequently, in order to obtain client referrals from Infinex, D&G may have an incentive to recommend to its clients that the assets under management by D&G be held in custody with Infinex. D&G may also have an incentive to place transactions for client accounts with Infinex.



D&G does not maintain custody of client funds or securities except in the following limited instances where D&G is defined, per the SEC, as maintaining custody:

- D&G's own retirement plan for its employees which is managed by D&G
- Three D&G managed accounts wherein a D&G employee acts as Trustee and where D&G collects an advisory fee on the account.

With respect to D&G's own retirement plan for its employees, each participating employee receives a quarterly account statement from the plan's third party administrator. With respect to the account where a D&G employee acts as Trustee, the client receives a monthly account statement from the qualified custodian and a quarterly account statement from D&G as described previously in Item 13. Clients should carefully compare both sets of statements.



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Item 10 Investment Discretion

When clients execute a D&G advisory contract they give D&G discretionary authority to manage their securities accounts and make investment decisions on their behalf. Clients may impose restrictions on investing in certain securities, or types of securities. They may also specifically request that certain existing holdings be held and not sold. A power of attorney is not involved in the granting of D&G's discretionary authority.

D&G has adopted and implemented written policies and procedures for voting proxies in compliance with SEC rule 206 (4)-6 of the Investment Advisers Act of 1940.

As part of our investment management services, D&G will vote proxies on behalf of the client. We have a designated Proxy Administrator whose obligations include: identifying the proxies D&G will vote; voting the proxies in the best interest of clients; and submitting the proxies promptly and properly. Our policy, consistent with our fiduciary responsibility, is to vote proxies in the interest of maximizing shareholder value. When deciding how to vote, consideration will be given to both the short and long term implications of the proposal.

D&G will honor any timely written request from a client to direct the proxy vote of his or her shares.

We have currently identified two conflicts of interest between client interests and our own within our proxy voting process. Thomas W. Pettyjohn, Jr., a principal of D&G, is a Director and Chairman of the Board of Directors of Bank of the James Financial Group, Inc., a publicly-held bank holding company based in Lynchburg, VA. D&G holds shares of Bank of the James Financial Group, Inc. in certain of its clients' accounts. Where there are proxy proposals by Bank of the James Financial Group, Inc., D&G will rely on the recommendation of an outside independent proxy administrator in voting the shares. David J. Hansen, Portfolio Manager for D&G, is a Director of CornerStone Bank, N.A., a publicly-held national banking association. D&G holds shares of CornerStone Bank, N.A. in certain of its clients' accounts. Where there are proxy proposals by CornerStone Bank, N.A. D&G will rely on the recommendation of an outside independent proxy administrator in voting the shares. At present, no clients of D&G hold shares in Cornerstone Bank, N.A. No other conflicts of interest have been identified in our proxy voting process. If D&G, however, determines that it is facing a material conflict of interest in voting a proxy, our procedures provide for D&G to retain the services of an outside independent proxy administrator. D&G will rely on the recommendation of that administrator to vote shares accordingly.

Upon request by the client in writing, the Proxy Administrator will distribute a complete proxy voting record which would include information about how D&G voted their securities.

Upon written request to D&G we will forward a copy of our complete Proxy Voting Policy & Procedure document.



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D&G does not require prepayment of fees from its clients other than one exception. D&G manages a limited number of accounts in the Scott & Stringfellow, Inc. "Spectrum" wrap program. The fee for these accounts is calculated based on the calendar quarter-end market value of the account and is a prepayment for the next quarter's wrap fee. Scott & Stringfellow, Inc. forwards the management fee portion of the wrap fee to D&G on a quarterly basis. In the event an account closes during a quarter, D&G is billed by Scott & Stringfellow for reimbursement of the remainder of the prepaid fee. None of these accounts requires prepayment of more than \$1200 per client, six months or more in advance. Therefore, D&G does not receive any material advance payments and is currently unaware of any situation that would impair our ability to meet our contractual commitments to our clients.