

# BTS ASSET MANAGEMENT



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Firm Brochure

(Part 2A of Form ADV)

This Brochure provides information about the qualifications and business practices of BTS Asset Management, Inc. "BTS". If you have any questions about the contents of this Brochure, please contact us at 1-800-343-3040 and/or [info@btsmanagement.com](mailto:info@btsmanagement.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

BTS Asset Management is registered as an investment adviser with the SEC. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about BTS Asset Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This section is only discussing material changes since the last annual update of this brochure. This brochure was last updated on 3/28/2011.

The principal items in this Brochure that are being updated are:

### Item 4 (“Advisory Business”)

BTS has removed the following advisory programs:

High Yield/Large Capitalization Stock Asset Allocation Program  
U.S. Asset Allocation Program  
Worldwide Asset Allocation Program  
High Yield/Convertible Bond Fund Program  
Several “Plus” Programs  
Alpha Strategic Asset Allocation Socially Responsible Balanced Portfolio  
Alpha Strategic Asset Allocation Socially Responsible Growth Portfolio

BTS has added the following advisory programs:

“ETF” Programs: Some Programs listed will invest exclusively in exchange-traded funds (“ETFs”). The ETF Programs are designed to allocate Client’s assets among ETFs selected by Advisor based on Advisor’s buy and sell signals. The number of ETFs selected and the allocation percentages shall be determined by Advisor. The selection of ETFs will be performed in accordance with the Program selected by Client and the Client’s investment objectives as indicated in the Client Financial Profile attached below. Client shall pay transaction fees for the purchase and sale of ETFs. The ETF transaction fees are charged by the custodian and Advisor does not share in the transaction fees charged by the custodian. The ETF Programs are likely to be more volatile than similar tactical programs that use mutual funds.

Rydex Funds Tactical Programs: Some programs will invest exclusively in Rydex mutual funds with assets custodied at Trust Company of America. These programs invest in the Rydex U.S. Gov’t Money Market Fund, the Rydex High Yield Strategy Fund, and the Rydex Gov’t Long Bond 1.2x Strategy Fund based on Advisor’s buy and sell signals, and the program selected by the Client.

### Item 5 (“Fees and Compensation”)

Added the following:

ETF Trades: \$.0045 per share\*

\*The ETF fee is a pass through charge that is subject to change by notification from the clearing firm to Trust Company. ETF orders have a \$5.00 minimum price per order. Most orders are executed as part of a group trade and the cost per client may or may not be higher than the fee state above. However, in situations where the trade is for an individual account being opened, closed or changing strategies, or is part of a very small group, the cost could be \$5.00 or \$.0045 per share – whichever is higher. BTS does not share any portion of such fees.

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## **Item 4 – Advisory Business**

### **A) Firm Description**

BTS was founded in 1979 by Vilis Pasts. Vilis Pasts owns 70% of BTS and Matthew Pasts owns 30%. BTS is federally registered with the SEC (Securities and Exchange Commission) as a Registered Investment Adviser. The primary services offered by BTS consist of mutual fund asset allocation advisory programs ("Programs"), described below. Through these Programs, BTS may issue "buy" and "sell" signals or recommendations. Resulting exchanges among funds are generally performed by BTS for its clients on a discretionary basis, without prior notice to the Client. In limited situations, BTS exchange signals are implemented by the Client's financial representatives. Large quick profits are not the primary goal of the BTS Programs. BTS may, from time to time, make changes to these Programs with written notice to the Client.

Some fund companies have 30 to 90 day holding periods and will charge a redemption fee if a sell signal is issued within the required holding period. While BTS attempts to inform the Client's financial representative of mutual funds and variable annuities that charge early redemption fees, it is the responsibility of the Client and their financial representative to determine if early redemptions fees may occur and to attempt to prevent them. BTS shall have no responsibility for early redemption fees that occur from the normal management of Client's account. Financial representatives are furnished with specific mutual fund restrictions upon request. BTS provides no guarantee of exchange execution on the signal receipt date. While BTS attempts to move all Clients within 24 hours of a signal, a delay of up to five business days could occur because of factors beyond the control of BTS. Such a delay could significantly affect performance. BTS assumes no responsibility for losses resulting from such delays. In addition, if a mutual fund places any new restrictions on Client accounts, both the Client and financial representative will be notified.

### **B) Types of Advisory Services**

#### **TACTICAL ASSET ALLOCATION PROGRAMS**

Tactical Asset Allocation Programs: These Programs are tailored to a Client's specified investment requests by selecting one or more mutual funds to be invested in. The purpose of these Programs is to attempt to provide downside protection in a falling market and appreciation possibilities in a rising market, by exchanging investments in the funds selected by the Client upon buy and sell signals provided by BTS.

Tactical Asset Allocation programs offered by BTS include: "High Yield Bond Fund Program" which utilizes a defensive (money market) fund and aggressive (high yield bond) fund; "Bond Asset Allocation Program" which utilizes a defensive (money market) fund and two aggressive (government and high yield bond) funds; "U.S. Government/Investment Grade Bond Fund Program" which utilizes a defensive (money market) fund and an aggressive (U.S. Government or investment grade bond) fund; and "Municipal Bond Fund Program", which utilizes a defensive (money market) fund and an aggressive (municipal or tax-exempt bond) fund. Each program maintains both its defensive and aggressive funds in the same family of mutual funds or sub-accounts within the same variable annuity.

Seasonality Program: This program employs a seasonal market timing strategy. Client and their financial representative pick a defensive (money market) fund that will be held during historically unfavorable market periods and an aggressive (stock) fund(s) that will be held during historically favorable market periods with the goal of providing downside protection during unfavorable market periods and appreciation possibilities during favorable market periods by exchanging between the types of funds as signals to buy close to a favorable market period and sell close to an unfavorable market period are generated. The historically favorable market period is considered to be approximately November through April and the historically unfavorable market period is considered to be approximately May through October. BTS will not issue buy or sell signals on any pre-selected dates, but will issue buy and sell signals near favorable and unfavorable market periods as the BTS's investment models dictate. No buy signals will be issued during unfavorable market periods, as determined by BTS in its sole discretion. BTS reserves the right to issue buy or sell signals outside of historically favorable and unfavorable periods when economic indicators or market situations develop where BTS determines it to be necessary to issue such buy or sell signals.

Seasonality/High Yield Program: This program is a combination of the Seasonality Program and the High Yield Program, as discussed above. During the favorable market period, Client's assets are invested in accordance to the Seasonality Program. However, during the unfavorable market period, Client's assets are invested in accordance to the High Yield Program. If due to market conditions BTS issues a sell signal during the historically favorable period, client's assets may be invested in accordance to the High Yield Program for the remainder of the historically favorable period.

Seasonality/Bond Asset Allocation Program: This program is a combination of the Seasonality Program and the Bond Asset Allocation Program, as discussed above. During the favorable market period, Client's assets are invested in accordance to the Seasonality Program. However, during the unfavorable market period, Client's assets are invested in accordance to the Bond Asset Allocation Program. If due to market conditions BTS issues a sell signal during the historically favorable period, client's assets may be invested in accordance to the Bond Asset Allocation Program for the remainder of the historically favorable period.

"Select" Programs: Some Programs listed above have "Select" versions. "Select" Programs are designed to allocate Client's assets among funds, and possibly exchange-traded funds, selected by BTS when BTS issues a buy signal. Client's assets are invested in money market mutual funds when BTS issues a sell signal. The number of funds selected and the allocation percentages are determined by BTS. The selection of funds is performed in accordance with the Program selected by the Client and the Client's investment objectives as indicated in the Client Financial Profile.

"ETF" Programs: Some Programs listed above will invest exclusively in exchange-traded funds ("ETFs"). The ETF Programs are designed to allocate Client's assets among ETFs selected by BTS based on BTS's buy and sell signals. The number of ETFs selected and the allocation percentages shall be determined by BTS. The selection of ETFs will be performed in accordance with the Program selected by Client and the Client's investment objectives as indicated in the Client Financial Profile. Client shall pay transaction fees for the purchase and sale of ETFs. The ETF transaction fees are charged by the custodian and BTS does not share in the transaction fees charged by the custodian. The ETF Programs are likely to be more volatile than similar tactical programs that use mutual funds.

"Plus" Programs: Some Programs listed above also have "Plus" versions. "Plus" Programs are designed to give BTS the option to invest Client's assets in a high yield inverse fund when BTS believes that high yields will decrease in value and issues a sell signal.

Rydex Funds Tactical Programs: Some programs listed above invest exclusively in Rydex mutual funds with assets custodied at Trust Company of America. These programs invest in the Rydex U.S. Gov't Money Market Fund, the Rydex High Yield Strategy Fund, and the Rydex Gov't Long Bond 1.2x Strategy Fund based on BTS's buy and sell signals, and the program selected by the Client.

## **STRATEGIC ASSET ALLOCATION PROGRAMS**

The Strategic Asset Allocation Programs are investment programs allocating assets among several mutual funds, and possibly exchange-traded funds, and asset categories utilizing a variety of mutual fund companies, based on Client's investment objectives and risk tolerance. After establishing the initial asset allocation mix, Client's account will be reallocated, or rebalanced if allocation percentages remain the same, on a quarterly basis within the first week of January, April, July, and October, in accordance with BTS's then current asset allocation recommendations. At BTS's discretion, Client's account may be reallocated at other times as required based on BTS's revised asset allocation recommendations.

Under the following Strategic Asset Allocation Programs, BTS selects the funds to be used in the Program based on the Clients investment objective and risk tolerance.

Alpha Income: Portfolio is designed and managed with the dual goal of providing a higher level of income while preserving capital and maintaining the possibility for moderate appreciation.

Alpha Conservative: Portfolio is designed and managed with the goal of preservation of capital and inflation protection.

Alpha Moderate: Portfolio is designed and managed with the goal of minimizing losses while maintaining growth opportunities.

Alpha Growth & Income: Portfolio is designed and managed with the goal of capital appreciation and a moderate level of current income.

Alpha Growth: Portfolio is designed and managed with the goal of long term capital appreciation.

Alpha Aggressive Growth: Portfolio is designed and managed with the goal of capital appreciation with little concern about short-term fluctuations in value.

American Funds Conservative: The American Funds Conservative portfolio is designed and managed with the goal of preservation of capital and inflation protection using American Funds mutual funds selected by BTS.

American Funds Moderate: The American Funds Moderate portfolio is designed and managed with the goal of minimizing losses while maintaining growth opportunities using American Funds mutual funds selected by BTS.

American Funds Growth: The American Funds Growth portfolio is designed and managed with the goal of long-term capital appreciation using American Funds mutual funds selected by BTS.

American Funds Aggressive Growth: The American Funds Aggressive Growth portfolio is designed and managed with the goal of capital appreciation with little concern about short-term fluctuations in value using American Funds mutual funds selected by BTS.

Under the following Strategic Asset Allocation Programs, the Client selects the funds to be used in the Program based on the Client's investment objective and risk tolerance.

Conservative: Portfolio is designed and managed with the goal of preservation of capital and inflation protection.

Moderate: Portfolio is designed and managed with the goal of minimizing losses while maintaining growth opportunities.

Growth: Portfolio is designed and managed with the goal of long term capital appreciation.

Aggressive Growth: Portfolio is designed and managed with the goal of capital appreciation with little concern about short-term fluctuations in value.

### **MULTI-STRATEGY PORTFOLIOS**

The Multi-Strategy Portfolios are investment portfolios allocating assets among several mutual funds, and possibly exchange-traded funds, using a combination of investment styles, including, but not limited to, Strategic Asset Allocation, Tactical Asset Allocation, and variations thereof, at the sole discretion of BTS. The Program is an investment advisory service designed to allocate Client's assets among funds selected by BTS in accordance with the Client's investment objective.

After establishing the initial portfolio allocations, Client's account will be reallocated, or rebalanced if allocation percentages remain the same, on a quarterly basis within the first week of January, April, July, and October, in accordance with BTS's then current asset allocation recommendations. In addition, Client's account will have occasional allocation changes as BTS makes buy and sell decisions based on market conditions and BTS's underlying investment strategies. At BTS's discretion, Client's account may be reallocated at other times as required based on the BTS's revised asset allocation recommendations.

The following Portfolios are available based on the Client's investment objective and risk tolerance:

Conservative: Portfolio is designed and managed with the goal of preservation of capital and inflation protection.

Moderate: Portfolio is designed and managed with the goal of minimizing losses while maintaining growth opportunities.

Growth: Portfolio is designed and managed with the goal of long term capital appreciation.

Aggressive Growth: Portfolio is designed and managed with the goal of capital appreciation with little concern about short-term fluctuations in value.

### **CUSTOM MULTI-STRATEGY PORTFOLIOS**

The Custom Multi-Strategy Portfolios are investment portfolios allocating assets among several Funds, and possibly exchange-traded funds, using a combination of investment styles, including, but not limited to, Strategic Asset Allocation, Tactical Asset Allocation, and variations thereof. Client selects which programs to utilize in their Custom Multi-Strategy Portfolio. Client must select at least one Strategic Asset Allocation program and at least one Tactical

Asset Allocation program. The Program is an investment advisory service designed to allocate Client's assets among Funds selected by BTS in accordance with the Client's selection of programs.

After establishing the initial portfolio allocations, Client's account will be reallocated, or rebalanced if allocation percentages remain the same, on a quarterly basis within the first week of January, April, July, and October, in accordance with the BTS's then current asset allocation recommendations. In addition, Client's account will have occasional allocation changes as BTS makes buy and sell decisions based on market conditions and BTS's underlying investment strategies. At BTS's discretion, Client's account may be reallocated at other times as required based on the BTS's revised asset allocation recommendations.

### **DIVERSIFIED INCOME PROGRAM**

The Diversified Income Program is an investment program allocating assets among several Funds, and possibly exchange-traded funds, selected by BTS in accordance with the Client's investment objective as indicated below. Approximately 30% of assets will remain allocated to high yield Funds, approximately 30% will remain allocated to total return bond funds, approximately 30% will be allocated to either high yield Funds or inverse high yield Funds based on BTS's buy and sell signals on the high yield bond sector, and approximately 10% will be allocated to either government Funds or inverse government Funds based on BTS's buy and sell signals on the U.S. government bond sector. These allocations may be adjusted at BTS's discretion. Client's account shall be rebalanced or reallocated to the above allocations on a periodic basis at BTS's discretion.

### **OTHER ACCOUNTS**

On October 8, 1999, BTS established the BTS Asset Allocation/High Yield Fund LLC, a private investment fund (the "Private Fund"). The Private Fund's investment objective is to seek high current income consistent with the preservation of capital. The Private Fund seeks to achieve its investment objective by investing in a portfolio consisting primarily of lower-rated, high-yield debt in accordance with a tactical asset allocation strategy. BTS is the managing member and the investment advisor of the Private Fund and is responsible for the overall management, including determination of the Private Fund's asset allocation strategy and the selection, monitoring, management and replacement of the Private Fund's sub-advisor to select the Private Fund's portfolio securities. BTS clients may be solicited to invest in the Private Fund. The Private Fund, which is a Delaware limited liability company, is only offered to investors that are both "accredited investors" under Regulation D of the Securities Act of 1933 and "qualified purchasers" under the Investment Company Act of 1940.

BTS is the investment advisor to the BTS Bond Asset Allocation Fund ("BTS Fund"). The BTS Fund is a diversified series of the Northern Lights Fund Trust, an Investment Company registered under the Investment Company Act of 1940. The BTS Fund seeks to provide total return. The BTS Fund invests at least 80% of its assets in bond instruments. BTS employs a proprietary financial research process, which includes: (1) top-down economic analysis, (2) quantitative research, (3) momentum forecasting and (4) technical analysis to assess trends, investment opportunities across the securities markets and to allocate the Fund's investment portfolio primarily between (i) money market instruments, (ii) U.S. Government securities and (iii) high yield bonds (or economically similar positions using derivatives).

BTS has agreements with other investment advisers or institutional/high net worth clients, whereby BTS sells its advisory services, as consultation services, to the investment advisers or institutional/high net worth clients. BTS does not execute any exchanges under these agreements. Upon issuing new advisory recommendations, BTS notifies the investment adviser or institutional/high net worth client of the new recommendations. BTS also has sub-advisory agreements with other investment advisers to use our advisory programs on a custodial platform. BTS fees are negotiable under these consultation and sub-advisory agreements.

### **C) Tailored Relationships**

BTS does not make "buy" or "sell" decisions regarding individual securities for Clients' accounts, nor does it provide advice on the basis of the individual needs of its Clients. BTS advisory programs are not tailored to the individual needs of Clients. Investment restrictions for "Select" Programs may be made by Clients and they must be provided to BTS in writing.

## **E) Managed Assets**

As of March 27, 2012, BTS managed approximately \$1,519,182,406 in assets for approximately 13,825 accounts. All of the assets are managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

### **A) Fee Schedules**

Fee schedule for Tactical Asset Allocation Programs: Clients pay BTS an annual management fee calculated in accordance with the fee schedules below:

<u>Amount Under Management</u>	<u>BTS Management Fee</u>	<u>Representative Fee</u>
First: <\$100,000	1.25%	
Next: \$100,000 - \$249,999	1.00%	_____ %
Next: \$250,000 - \$499,999	.75%	(0% - 1.5%)
Next: \$500,000 - \$999,999	.50%	
Next: \$1,000,000+	.40%	

Fee Schedule for Strategic Asset Allocation Programs: Clients pay BTS an annual management fee calculated in accordance with the fee schedule below:

<u>Amount Under Management</u>	<u>BTS Management Fee</u>	<u>Representative Fee</u>
First: <\$250,000	.60%	
Next: \$250,000 - \$749,999	.40%	_____ %
Next: \$750,000 +	.30%	(0% - 1.5%)

Fee Schedule for the Multi-Strategy Portfolios: Clients pay BTS an annual management fee calculated in accordance with the fee schedule below:

<u>Assets Under Management</u>	<u>BTS Management Fee</u>	<u>Representative Fee</u>
First: <\$100,000	1.00%	
Next: \$100,000 - \$249,999	0.85%	_____ %
Next: \$250,000 - \$499,999	0.75%	(0%-1.5%)
Next: \$500,000 - \$999,999	0.50%	
Next: >\$1 Million	0.40%	

Fee Schedule for the Diversified Income Program: Clients pay BTS an annual management fee calculated in accordance with the fee schedule below:

<u>Assets Under Management</u>	<u>BTS Management Fee</u>	<u>Representative Fee</u>
First: <\$250,000	.85%	
Next: \$250,000 - \$499,999	.75%	_____ %
Next: \$500,000 - \$999,999	.50%	(0%-1.5%)
Next: \$1 Million +	.40%	

Under certain circumstances, BTS may agree to charge clients of certain sales representatives and/or broker/dealers less than its customary rate because of the volume of business referred to, or promised to be referred to BTS by such sales representatives or broker/dealers. Fees charged to pension plans, retirement plans, and institutional clients may be negotiable. BTS reserves the right to negotiate fees where there are multiple accounts for one person or within the same household which may, when consolidate, amount to over a breakpoint. Fees may vary depending on the Client's financial representative. As a concession to their clients, some third-party solicitors offer BTS's advisory services for a reduced representative fee. In addition, BTS may have agreements with certain broker/dealers or registered investment advisors to manage Client accounts through the broker/dealers' or registered investment advisors'



custodian at a reduced advisory fee. In addition, generally the fee to the Client for BTS Programs is the same whether the Client comes to BTS directly or is handled through a sales representative. Nevertheless, the fees charged by BTS may be higher than that normally charged in the industry and that it is possible that the same, similar or significantly more extensive services may be available from other advisors at lower rates. Clients may purchase fund shares directly without using BTS's Programs.

## **BTS FUND**

Pursuant to an advisory agreement between the BTS Fund and BTS, BTS is entitled to receive, on a monthly basis, an annual advisory fee equal to 1.00% of the BTS Fund's average daily net assets. For additional information about the BTS Fund, please read the prospectus for the BTS Fund.

## **B) FEE PAYMENTS**

Client accounts whose assets are held and maintained by a custodian other than Trust Company of America are usually billed annually. The annual fee for the first year is based on the total principal amount initially invested. The fee for subsequent years is based on the market value of Client's account(s) determined approximately 8 to 12 weeks prior to the renewal date. The fee for additional amounts invested is prorated for the remaining portion of the contractual year of deposit. Fees are payable (a) for the first year upon execution of the agreement, (b) for additional amounts when deposited, and (c) by each renewal date. If a Client converts to a Program that has a different fee schedule during the contract year, then a new contract date is established for another one-year period. The balance of the management fee not yet earned by BTS is used towards the management fee for the new one-year contract period. The unearned management fee of a converting account is prorated. A management fee for the new contract year, minus the unearned management fee, is due upon conversion. If a conversion to a program with a lower fee schedule results in an overpayment, then BTS shall issue a refund to the Client.

Client accounts whose assets are held and maintained by Trust Company of America as the custodian are billed quarterly. Quarterly fees may also be available for certain fund or variable annuity companies. The initial fee for the first calendar quarter is based on the total principal amount initially invested. Accounts established in the middle of a quarter are prorated for the remainder of the calendar quarter. The fee for subsequent quarters is based on the market value of Client's account(s) determined approximately the last week of the calendar quarter. The fee for additional amounts invested is prorated for the remaining portion of the calendar quarter of deposit. Fees are payable (a) for the first quarter upon execution of the management agreement, (b) for additional amounts when deposited, and (c) by each calendar quarter. The quarterly fee is calculated and deducted by the custodian from Client's cash or money market fund, or an alternative fund that is associated with the management agreement. If the Client converts to a program that has a different fee schedule during the calendar quarter, then the balance of the management fee not yet earned by BTS is used towards the management fee for the remainder of the calendar quarter. The unearned management fee of a converting account is prorated. A management fee for the remainder of the calendar quarter, minus the unearned management fee, is due upon conversion. If a conversion to a program with a lower fee schedule results in an overpayment, then BTS issues a refund to the Client.

## **C) OTHER FEES**

In addition to the advisory fees paid to BTS, Client will also pay fees and expenses at the fund level (e.g., advisory fees, shareholder service fees, etc.) and may pay a sales charge when purchasing or redeeming fund shares. For ETF purchases and redemptions, there will be a transaction fee charged to the client by the custodian. BTS does not share any portion of such fees. Upon mutual fund exchanges, an exchange fee may be charged by the custodian bank of each mutual fund family which is deducted from the proceeds of liquidation before reinvestment. In addition, some mutual funds and variable annuities may charge early redemption fees. Early redemption fees can occur due to the timing of BTS signals, withdrawals by the Client, and from BTS redeeming advisory fees. At BTS's discretion, Client may incur a \$50 service charge if Client changes from one BTS Program to another at any time other than at renewal. In selecting the mutual funds, Client should review carefully each prospectus for possible fund restrictions on exchanges as BTS assumes no responsibility for potential or actual losses resulting from any such restrictions. While BTS attempts to inform the Client's financial representative of mutual funds and variable annuities that charge early redemption fees, it is the responsibility of the Client and their financial representative to determine if early redemptions fees may occur and to attempt to prevent them. BTS shall have no responsibility for early redemption fees that occur from the normal

management of Client's account. In addition, Trust Company of America ("TCA") charges clients the following incidental special service fees for items considered outside the normal course of managing Client's account:

ETF Trades: \$.0045 per share\*  
Check Distribution: \$20 per occurrence  
Transfer/Termination Fee: \$50 + \$25 per asset (max \$250) for in-kind transfers  
Wired Funds: \$25 per wire  
Returned Check: \$35 per occurrence  
Cancelled Check: \$20 per occurrence  
Non-traditional Asset Custody: \$100 per asset per account annually  
1035 Exchange: \$250 per exchange  
Next DayMail Service: \$25 per request  
SoloK Annual Maintenance Fee: \$50 quarterly  
SoloK 5500 EZ Filing: \$125 per filing  
SoloK Loan Fee: \$100 per loan

\*The ETF fee is a pass through charge that is subject to change by notification from the clearing firm to Trust Company of America. ETF orders have a \$5.00 minimum price per order. Most orders are executed as part of a group trade and the cost per client may or may not be higher than the fee stated above. However, in situations where the trade is for an individual account being opened, closed or changing strategies, or is part of a very small group, the cost could be \$5.00 or \$.0045 per share – whichever is higher. BTS does not share any portion of such fees.

Please see the section entitled "Brokerage Practices" on page 9 for more information.

#### **D) Termination and Refunds**

The management agreement between the Client and BTS remains in effect until terminated by either party upon giving written notice at any time during the term of the agreement. Client accounts shall be terminated as of the date BTS receives written notice from the Client and specified by the Client. If the Client requests termination of the agreement within five business days of execution, the management and representative fees will be refunded in full. In the event of termination by Client during the first year of the agreement (other than within five business days following execution), at the discretion of BTS the first \$200 of the fee may not be refunded in order to cover start-up costs associated with establishing Client's account.

i) For Tactical Asset Allocation accounts with an annual fee, if no signal is called prior to Client's termination notice in any year, the annual fee (less \$200 if the termination occurs during the first year of this Agreement) will be refunded on a prorated basis; if one signal is called prior to Client's termination notice in any year, 50% of the annual fee (less \$200 if the termination occurs during the first year of the agreement) will be refunded on a prorated basis; and if two or more signals are called prior to Client's termination notice in any year, 25% of the fee (less \$200 if the termination occurs during the first year of the agreement) will be refunded on a prorated basis. Unless the advisory fee is received each year by the renewal date, at the discretion of BTS, the agreement may automatically terminate.

ii) For Tactical Asset Allocation accounts with a quarterly fee, if no signal is called prior to Client's termination notice in any quarter, the quarterly fee (less \$200 if the termination occurs during the first quarter of the agreement) will be refunded on a prorated basis; if one signal is called prior to Client's termination notice in any quarter, 50% of the quarterly fee (less \$200 if the termination occurs during the first quarter of the agreement) will be refunded on a prorated basis; and if two or more signals are called prior to Client's termination notice in any quarter, 25% of the fee (less \$200 if the termination occurs during the first quarter of the agreement) will be refunded on a prorated basis. Unless the advisory fee is received each quarter by the end of the quarter, at the discretion of BTS, the agreement may automatically terminate.

iii) For Strategic Asset Allocation accounts with an annual fee, if Client requests termination after the first five business days, and no rebalances have been performed the annual fee will be refunded on a prorated basis (minus \$200 if terminated within the first calendar quarter or year); if one rebalance has been performed prior to the client's termination notice in any year, 50% of the annual fee will be refunded on a prorated basis; if two or more rebalances have been performed prior to the client's termination notice, 25% of the annual fee will be refunded on a prorated basis. Unless the advisory fee is received each year by the renewal date, at the discretion of BTS, the Agreement may automatically terminate.

iv) For Strategic Asset Allocation accounts with a quarterly fee if Client requests termination after the first five business days, the quarterly fee will be refunded on a prorated basis (minus \$200 if terminated within the first calendar quarter). Unless the advisory fee is received each calendar quarter within one week after the end of the calendar quarter, at the discretion of BTS, the Agreement may automatically terminate.

v) For Multi-Strategy Portfolios accounts if Client requests termination after the first five business days, if no rebalances or exchanges have been made the quarterly fee will be refunded on a prorated basis (minus \$200 if terminated within the first calendar quarter); if one rebalance or exchange has been performed prior to the client's termination notice in any calendar quarter, 50% of the quarterly fee will be refunded on a prorated basis; if two or more rebalances or exchanges have been performed prior to the client's termination notice, 25% of the quarterly fee will be refunded on a prorated basis. Unless the advisory fee is received each year by the renewal date, at the discretion of BTS, the management agreement may automatically terminate.

Upon termination of the management agreement for any reason, BTS has seven business days to implement such termination. Due to delays by the mutual fund(s) processing the BTS's instructions to remove clients from the trading lists, if a signal is called during the period, Client's account(s) may or may not be moved into the signaled position. BTS assumes no responsibility for losses resulting from such delay. However, in the event that a client suffers a loss because the termination of the Client's account is delayed by BTS due to its negligence or malfeasance, BTS will reimburse the Client for such loss.

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

For managing the BTS Asset Allocation/High Yield Fund LLC BTS receives an annual investment management fee equal to 1.5% of the Private Fund's total assets, calculated monthly and payable quarterly. In addition, BTS is entitled to a performance allocation equal to 20% of the Private Fund's net new profits, both realized and unrealized.

Performance fee arrangements are limited to qualified clients and such fees may be subject to individualized negotiation with each such client. BTS will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, BTS shall include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for BTS to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. BTS has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 – Types of Clients**

BTS provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, foundations, endowments, registered mutual funds, private investment funds, and trust programs.

BTS Tactical Asset Allocation Program accounts require an initial minimum of \$25,000.

BTS Strategic Asset Allocation Program accounts require an initial minimum of \$25,000.

BTS Multi-Strategy Portfolios accounts require an initial minimum of \$100,000 for accounts held at TCA, \$25,000 for variable annuity accounts.

BTS Diversified Income Program accounts require an initial minimum of \$50,000.

BTS Asset Allocation/High Yield Fund LLC requires a minimum investment of \$500,000.

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

### **A) Methods of Analysis and Investment Strategies**

BTS Programs, or investment strategies, are described in detail in Item 4 above. Each Client's Program is selected by the Client with the assistance of their financial representative. The Program selected should match the investment objectives and risk tolerance of the Client.

BTS obtains its analytical data from daily market price and volume movements, interest rate movements on bond, treasury bills, government securities, federal funds and prime rates, and various other printed sources it considers reliable. As Director of Research and Founder, Vilis Pasts has responsibility for developing and maintaining the investment models which create the "buy" and "sell" signals for BTS Tactical Asset Allocation programs. These models are updated quarterly, biannually, or annually, as economic conditions dictate. During the modeling process, the Director of Research may elect to consult with BTS employees and consultant(s) who are affiliated with the Research Department, such as CEO Matthew Pasts. The final determination of the "buy" and "sell" signals is derived from an interpretation of the investment models, and may be implemented by Vilis Pasts or Matthew Pasts.

BTS obtains input for the asset allocation percentages for the Strategic Asset Allocation Program from Decision Economics, Morningstar, Ibbotson, and Standard & Poor's Advisory Services, along with outside fund consultants, to fine tune the allocation percentages and fund selection.

BTS obtains data for the Tactical Asset Allocation Programs with the "Select" option from a number of sources. Research is performed by BTS to select top performing funds based on fund performance, manager review, availability of the fund for active trading and liquidity issues with particular custodians used for the Tactical Asset Allocation Select Programs.

BTS obtains data for the Multi-Strategy Portfolios using the resources of Decision Economics, Ibbotson, Morningstar, and Standard & Poor's Advisory Services along with BTS technical analysis as program inputs. In addition, BTS uses in-house technical models for the tactical portion of the portfolios with data analysis performed as described above.

Investing in securities involves risk of loss that clients should be prepared to bear.

### **B) Risk of Loss**

Investing in bonds and high yield securities involves risks, including interest rate risk, credit risk, and reinvestment rate risk. Investing in small cap stocks involves additional risks, including operating risk and liquidity risk. Investing in international and emerging markets stocks involves additional risks, including political risk and currency risk. Investing in inverse mutual funds, which are designed to profit from declining securities prices, involves certain risks that may include increased volatility due to the funds' possible use of short sales of securities (borrowing securities in the belief the securities will decrease in value and then purchasing the securities later at a lower price) and derivatives such as options and futures, which give the options and futures owner the ability to purchase the securities later at a more beneficial price. The use of leverage, or borrowing money to purchase additional securities, by a mutual fund increases risk of the fund. The more a fund invests in leveraged instruments, the more the leverage will magnify any gains or losses on those investments.

BTS's Tactical and Multi-Strategy Programs can sometimes involve frequent trading. Frequent trading can affect investment performance since this may increase the potential for taxes from multiple purchases and sales of securities.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of BTS or the integrity of BTS's management. BTS has no information applicable to this Item.

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

### **A) Activities**

Some BTS representatives and employees are registered with BTS Securities Corporation (“BTSC”), a registered broker-dealer with the Financial Industry Regulatory Authority (“FINRA”). See Item 10 C below for more details.

### **C) Affiliations**

BTSC is an affiliate of BTS. BTS' advisory programs are marketed directly by officers and employees of BTS and through solicitors (“sales representatives”) some of whom may be associated with BTSC. BTS compensates sales representatives and/or broker/dealers employing them by sharing a portion of the advisory fee paid by the clients to BTS (0% to 1.5% of the fee paid to BTS on an ongoing basis). Vilis Pasts serves as a Director of BTSC and Matthew Pasts serves as President and a Director of BTSC. Gary Shilman serves as Secretary and a Director of BTSC. See Item 11 B below for potential conflicts.

BTS is the Managing Member of the BTS Asset Allocation/High Yield Fund LLC, a private investment company or “hedge fund”. See Item 11 B below for potential conflicts.

BTS is the investment adviser to the BTS Bond Asset Allocation Fund, an open-end investment company, or mutual fund. See Item 11 B below for potential conflicts.

BTS Insurance Agency, Inc., an affiliate of BTS, is an insurance agency licensed with the insurance department of several states, selling variable annuities and life insurance products. BTS' advisory programs are marketed directly by officers and employees of BTS and through sales representatives, some of whom may be associated with BTS Insurance Agency. Vilis Pasts serves as the President and sole owner of BTS Insurance Agency.

## **Item 11 – Code of Ethics**

### **A) Code of Ethics**

BTS strives to observe exemplary standards of openness, integrity, honesty and trust. Accordingly, we have adopted Code of Ethics for the purpose of deterring wrongdoing and promoting: 1) honest and ethical conduct; 2) full, fair, accurate, timely and understandable disclosure in reports and documents; 3) compliance with applicable laws (including federal and state securities laws), rules, and regulations. BTS and its employees take the best interest of clients ahead of our own.

All employees are responsible for safeguarding nonpublic information about securities recommendations, client holdings, and other client information. Client information may only be shared with third parties that BTS works with for the normal management of client accounts.

BTS will provide a copy of its Code of Ethics to any client or prospective client upon request.

### **B) Participation or Interest in Client Transactions**

The officers and registered representatives of BTS Securities Corporation, who are also employees or officers of BTS, may receive a commission from the sale of a mutual fund or variable annuity to a person who may also be a client or potential client of BTS.

BTS has a conflict of interest in selecting the mutual funds to be used for BTS Programs where Client assets are custodied at Trust Company of America (“TCA”). BTS pays a custodial fee for accounts custodied at TCA. Certain funds that pay 12b-1 commissions of up to 25 basis points per year to TCA offset the custodial fee that BTS pays to TCA, thereby lowering the custodial fee that BTS pays. When selecting the mutual funds to use in these Programs, the payment of 12b-1 commissions is not a factor in deciding to select a fund. In deciding between two funds where everything else is equal, BTS may select the fund that pays 12b-1 fees.

BTS may select the BTS Bond Asset Allocation Fund for clients with assets at Trust Company of America. A conflict exists as the BTS Fund is affiliated with BTS. Where BTS Client assets are invested in the BTS Fund, the fees earned by BTS from the BTS Fund are credited towards the Client's BTS advisory fees as determined by the BTS Client Agreement. In addition, the BTS Fund pays 12b-1 commissions of up to 25 basis points per year to TCA that offset the custodial fee that BTS pays to TCA, thereby lowering the custodial fee that BTS pays.

### **C) Similar Securities**

BTS, as the Managing Member of the BTS Asset Allocation/High Yield Fund LLC, may purchase the same or similar securities for the Private Fund at the same time as BTS affects transactions for other BTS Clients. The Private Fund may also affect purchase and sales of securities independently of the signaling of a move for BTS Clients.

BTS, as the investment adviser to the BTS Bond Asset Allocation Fund, may purchase the same or similar securities for the BTS Fund at the same time as BTS affects transactions for other BTS Clients. The Fund may also affect purchase and sales of securities independently of the signaling of a move for BTS Clients.

BTS, BTS Securities Corporation and their respective officers, directors and employees may also purchase the same or similar mutual funds for their own accounts, and may participate in the investment programs provided by BTS.

In situation where BTS is purchasing or selling the same securities for either the Clients in the BTS Programs, the Private Fund, or the BTS Fund, BTS manages the orders in such a way as to ensure that one Client will not be treated in such a way so as to create a disadvantage or loss to another Client. This includes policies and procedures which include (but is not limited to) the following; treatment of client orders fairly and in due turn, the maintenance of confidential information, fair allocation of trade executions when trading for multiple Clients, and equal disclosure of relevant information to clients.

### **D) Recommending Securities**

In order to prevent a conflict of interest, Clients' interests are taken ahead of the directors, officers and employees, including registered representatives, of both BTS and BTS Securities Corporation. BTS personnel may act on BTS advice for their own accounts only after an exchange signal has occurred and exchanging client accounts has commenced. At times other than the signaling of a move, BTS personnel may effect transactions in securities for their own accounts independent of a signal.

## **Item 12 – Brokerage Practices**

### **Selecting Brokerage Firms**

As the investment advisor for the BTS Bond Asset Allocation Fund, BTS selects the broker or dealer to be used in placing trade orders for the BTS Fund. The selection of broker dealer to be used is determined based on a number of factors including, but not limited to, the ability to execute trades in a manner beneficial to BTS, the commissions or spreads charged by the broker dealer, and other services provided by the broker dealer.

At the request of the Client, BTS will suggest a financial representative whose office is located in the general area of the Client's address. The maximum representative fee percentage that BTS pays is the same for all financial representatives.

### **Soft Dollars**

BTS does not receive soft dollar benefits from the custodians we use or from the brokers we use to execute transactions.

## **Item 13 – Review of Accounts**

### **A) Periodic Reviews**

Tactical Programs are constantly under review due to the technical model driven nature of the programs. Strategic Asset Allocation and Multi-Strategy Portfolio accounts are reviewed on a quarterly basis.

There are 8 reviewers: 7 Client Account Managers and 1 Supervisor. Client Account Managers duties include confirming the position and value of client assets on a regular basis and after every exchange of a client's account. Each Client Account Manager is assigned approximately 2,500 accounts. The supervisor reviews the work of the Client Account Managers.

### **A) Regular Reports**

Clients receive a written renewal notice at least one month prior to renewal date of their Agreement and a notice confirming renewal one week after renewing the Agreement. Clients also receive a notice following a move. Clients whose accounts renew automatically only receive a notice confirming renewal one week after renewing their Agreement. BTS does not send performance reports or other types of reports specific to Client accounts to Clients.

Clients receive monthly or quarterly statements from their account Custodian. Custodians are not related to BTS.

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

BTS advisory programs are marketed directly by officers and employees of BTS and through Sales Representatives who may be associated with BTS Securities Corporation (an affiliate of BTS), investment company affiliated brokerage firms or other brokerage firms. Usually, the sales representative is a licensed sales person employed by a broker/dealer. As such, the representative may receive, or has received, commissions for the Client's initial investment in the mutual funds and subsequent commissions depending on the advisory program entered into by the Client. BTS does not receive any portion of the commissions.

BTS compensates sales representatives and/or broker/dealers employing them by sharing a maximum of up to a 1.5% Annual Representative Fee pursuant to the management agreement with the Client based on the value of Client's account on a continuing basis, and the broker/dealer or other soliciting firm's individual representative (if applicable) will receive all or some of such compensation from the firm. In addition, BTS has revenue sharing agreements with some brokerage firms in which BTS pays up to 5% of the advisory fee earned by BTS to the brokerage firm. BTS occasionally gives marketing support on a case-by case-basis to broker/dealers and/or sales representatives of broker/dealers in the form of cash payments for the marketing of BTS advisory services. Some representatives may receive consulting fees from BTS for providing consulting services to BTS. Since the sales representative may also handle the Client's account directly, or be affiliated with the broker/dealer handling the Client's account, a potential conflict of interest exists. Furthermore, solicitation agreements between BTS and regional directors may exist where the regional directors receive a percentage of the referral fee paid to the sales representatives.

## **Item 15 – Custody**

BTS technically has "custody" of client assets due to BTS' ability to deduct advisory fees from client accounts. BTS may also charge clients more than \$1,200 in fees, six months or more in advance. Assets are held directly at a custodian that is not affiliated with BTS.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Clients should carefully review those statements and compare those official custodial records to any statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

As the managing member of the BTS Asset Allocation/High Yield Fund, LLC, a private investment fund (the "Private Fund"), BTS is considered as having custody of the assets invested in the Private Fund due to BTS's ability to control the assets of the Private Fund. However, assets are held at an independent custodian that is not affiliated with BTS. The Private Fund has an independent administration company that monitors transactions of the Private Fund.

## **Item 16 – Investment Discretion**

BTS receives discretionary authority from the client at the outset of an advisory relationship by completing and signing the BTS Client Agreement. Depending on the advisory program chosen by a client, discretion may be limited to the timing of transactions and the amount of securities to be bought and sold. In other programs, BTS has discretion to decide when to initiate transactions, select the identity of securities to be bought and sold and the amount of securities to be bought and sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular advisory program client has selected.

When selecting securities and determining amounts, BTS observes the investment policies applicable to each advisory program, and limitations and restrictions of the clients for which it advises. For registered investment companies, BTS's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

## **Item 17 – Voting Client Securities**

BTS does not vote proxy statements for any Clients in BTS Programs. Proxy statements are sent directly to Clients by the custodians.

### Proxies for the BTS Bond Asset Allocation Fund:

BTS serves as investment adviser to an open-end investment company under the Northern Lights Fund Trust. The BTS Fund may make investments in other investment companies that are not affiliated ("Underlying Funds"). The BTS Fund is required by the Investment Company Act to handle proxies received from Underlying Funds in a certain manner. In particular it is the policy of BTS to vote all proxies received from the Underlying Funds in the same proportion that all shares of the Underlying Funds are voted, or in accordance with instructions received from Fund shareholders, pursuant to Section 12(d)(1)(F) of the Investment Company Act. Proxies received on behalf of the BTS Fund that represent securities that are not investment companies will be voted according to BTS' proxy voting policies.

All proxies received from Underlying Funds will be reviewed with the Chief Compliance Officer or appropriate legal counsel to ensure proper voting. After properly voted, the proxy materials are placed in a file maintained by the Chief Compliance Officer for future reference. The Chief Compliance Officer is ultimately responsible for ensuring that all proxies received by BTS are voted in a timely manner and in a manner consistent with the established BTS' policies. Although the majority of proxy proposals can be handled in accordance with BTS' established proxy policies, BTS recognizes that some proposals require special consideration that may dictate that exceptions are made to its general procedures.

Clients may obtain a copy of BTS's complete proxy voting policies and procedures upon request. Clients may also obtain information from BTS about how BTS voted any proxies on behalf of the BTS Fund.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about BTS's financial condition. BTS has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. BTS's audited balance sheet is attached to this brochure.



**Brochure Supplement (Part 2B of Form ADV)**

**Supervised Persons**

Vilis Pasts and Matthew Pasts

**BTS Asset Management, Inc.  
420 Bedford St.  
Suite 340  
Lexington, MA 02420  
1-800-343-3040**

**3/28/2011**

**This Brochure Supplement provides information about Vilis Pasts and Matthew Pasts that supplements the BTS Asset Management, Inc. Brochure. You should have received a copy of that Brochure. Please contact the Compliance Administrator if you did not receive BTS Asset Management Inc.'s Brochure or if you have any questions about the contents of this supplement.**

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

## **Vilis Pasts, Chairman and Director of Research**

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

Educational Background:

Year of Birth: 1944

Babson College, Bachelor of Science Business Administration, 1965

Business Experience:

Prior to founding BTS Asset Management in 1979, Vilis was employed as a Securities Analyst for Spear & Staff, where he worked directly with the President and Founder. From 1966 to 1970, Vilis was an account executive with Connecticut General Life, where he received the Award of Merit, the Vice President's Club and President's Club awards. In 1967, he became a registered representative. From 1970 to 1978, he held various positions with several brokerage firms, including registered principal since 1972. Vilis also founded BTS Securities Corporation ("BTSC") in 1981. BTSC is a registered broker/dealer with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority, Inc. (FINRA), and the Municipal Securities Rulemaking Board. Vilis holds the Series 7, 63, 65, and 24 securities licenses.

### **Item 3- Disciplinary Information**

None

### **Item 4- Other Business Activities**

Registered Principal of BTS Securities Corporation. President of BTS Insurance Agency, Inc. Vilis Pasts receives commissions based on the sale of mutual funds and variable annuities through BTS Securities Corporation and BTS Insurance Agency. This practice gives Vilis an incentive to recommend investment products based on the compensation received, rather than on the Client's needs.

### **Item 5- Additional Compensation**

None

### **Item 6 - Supervision**

Vilis Pasts' compliance related activities are supervised by Gary Shilman, Chief Compliance Officer. He monitors Vilis' trading activity, that BTS Programs are managed according to their investment objectives and Program guidelines, and that BTS's Code of Ethics is being following.

Gary Shilman can be contacted at 800-343-3040 ext. 339.

## **Matthew Pasts, CMT, Chief Executive Officer, Treasurer, Director**

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

Educational Background:

Year of Birth: 1965

Babson College, Bachelor of Science Business Administration, 1993

Babson Graduate School of Business Administration, Part Time 1993 -1999

Business Experience:

Matthew joined BTS in 1989, having worked in various capacities since that time. Matthew is a member of the Market Technicians Association (MTA). Upon completion of the MTA's Chartered Market Technician (CMT) program, and gaining membership into the MTA, he obtained the CMT designation. Since 1991, Matthew has been a registered principal with BTS Securities Corporation and currently serves as its President and Treasurer. Matthew holds the Series 6, 63, 65, and 26 securities licenses.

### **Item 3- Disciplinary Information**

None

### **Item 4- Other Business Activities**

Registered Principal of BTS Securities Corporation. Matthew Pasts receives commissions based on the sale of mutual funds and variable annuities through BTS Securities Corporation. This practice gives Matthew an incentive to recommend investment products based on the compensation received, rather than on the Client's needs.

### **Item 5- Additional Compensation**

None

### **Item 6 - Supervision**

Matthew Pasts' compliance related activities are supervised by Gary Shilman, Chief Compliance Officer. He monitors Matthew's trading activity, that BTS Programs are managed according to their investment objectives and Program guidelines, and that BTS's Code of Ethics is being following.

Gary Shilman can be contacted at 800-343-3040 ext. 339.

### **Professional Certification**

Matthew Pasts has earned the following certification that is required to be explained in further detail.

### **Chartered Market Technician**

The Chartered Market Technician (CMT) Program is a certification process in which candidates are required to demonstrate proficiency in a broad range of technical analysis subjects. Administered by the Accreditation Committee of the Market Technicians Association (MTA), Inc., the Program consists of three levels. CMT Level 1 and CMT Level 2 are multiple choice exams while CMT Level 3 is in essay form. The CMT Program and designation is a voluntary certification; no federal or state law or regulation requires someone to hold the CMT designation.

To attain the right to use the CMT designation an individual must satisfactorily fulfill the following requirements:

- Successful completion of all three (3) levels of the CMT Exam;
  - CMT Level 1 (Definition). The Level 1 examination measures basic, entry-level competence and understanding of the candidate. The CMT Level 1 candidate needs to have a working knowledge of the basic tools of the technical analyst.
  - CMT Level 2 (Definition/Application). The CMT Level 2 examination requires the candidate to demonstrate a greater depth of analysis and competency. The CMT Level 2 candidate is expected to demonstrate proficiency in applying more advanced analytical techniques. Overall, the candidate is responsible for the theory and application of concepts and techniques.
  - CMT Level 3 (Integration). The CMT Level 3 examination tests the candidate on the development of logical and consistent research opinions, portfolio strategies and trading decisions based on a wide range of charts and technical data. The CMT 3 candidate must pass the ethics portion of this exam or risk failure.
- Have obtained “Member Status” within the MTA.
- Have been gainfully employed in a professional analytical or investment management capacity for a minimum period of three (3) years and must be regularly engaged in this capacity at the time of successfully passing all three (3) levels of the CMT Exam.

**Balance Sheets**  
**BTS Asset Management, Inc.**

**December 31, 2011 and 2010**



**Mayer Hoffman McCann P.C.**  
**Tofias New England Division**  
An Independent CPA Firm

# **BTS ASSET MANAGEMENT, INC.**

## ***Balance Sheets***

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**Mayer Hoffman McCann P.C.**  
**Tofias New England Division**  
 An Independent CPA Firm

500 Boylston Street ■ Boston, MA 02116  
 Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofias.com

### *Independent Auditors' Report*

The Board of Directors  
 BTS Asset Management, Inc.  
 Lexington, Massachusetts

We have audited the accompanying balance sheets of BTS Asset Management, Inc. (a Massachusetts corporation) as of December 31, 2011 and 2010. The balance sheets are the responsibility of the Company's management. Our responsibility is to express an opinion on the balance sheets based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheets are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the balance sheets referred to above present fairly, in all material respects, the financial position of BTS Asset Management, Inc. as of December 31, 2011 and 2010 in conformity with U.S. generally accepted accounting principles.

*Mayer Hoffman McCann P.C.*

March 9, 2012  
 Boston, Massachusetts

### **BTS ASSET MANAGEMENT** *Balance Sheets* December 31,

	2011	2010		2011	2010
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 426,933	\$ 130,293	Deferred advisory fees	\$ 4,974,363	\$ 4,339,235
Trading marketable securities	1,653,041	2,191,181	Accounts payable and accrued expenses	1,017,413	1,304,328
Advisory fees receivable	785,016	752,025	Distributions payable	1,900,000	1,700,000
Prepaid commissions	2,510,232	2,116,710	Commissions payable	620,280	564,081
Prepaid expenses and other current assets	297,699	253,776			
			<b>Total current liabilities</b>	<b>8,512,056</b>	<b>7,907,644</b>
<b>Total current assets</b>	<b>5,672,921</b>	<b>5,443,985</b>			
Property and equipment:			Shareholders' equity:		
Furniture and equipment	934,779	854,610	Common stock, Class A, \$0.01 par value,		
Less: accumulated depreciation	626,219	537,365	authorized 50,000 shares, voting,		
			issued and outstanding 10,000 shares	100	100
<b>Net property and equipment</b>	<b>308,560</b>	<b>317,245</b>	Common stock, Class B, \$0.01 par value,		
			authorized 50,000 shares, non-voting,		
Other assets:			issued and outstanding 32,857		
Investment in LLC	4,091,163	4,033,251	shares	321	321
Deposits	25,416	12,193	Additional paid-in capital	506,330	506,330
Advances to related parties	223,463	115,892	Retained earnings	1,344,798	1,550,253
Notes receivable from related parties	42,082	42,082			
			<b>Total shareholders' equity</b>	<b>1,851,549</b>	<b>2,057,004</b>
	<b>4,382,124</b>	<b>4,203,418</b>			
<b>Total assets</b>	<b>\$ 10,363,605</b>	<b>\$ 9,964,648</b>	<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,363,605</b>	<b>\$ 9,964,648</b>

# **BTS ASSET MANAGEMENT, INC.**

## ***Notes to Balance Sheets***

### ***Note 1 - Nature of Operations and Summary of Significant Accounting Policies***

BTS Asset Management, Inc. (the “Company”) is registered with the Securities and Exchange Commission as an investment advisor under the Investment Advisors Act of 1940. The Company, which was established in 1979, studies general investment market conditions and, in return for a fee, renders advice as to when investment balances should be moved or transferred from one investment category to another.

A summary of the accounting policies consistently applied in the financial statements follows:

#### ***Financial Statement Presentation***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. In addition, the Company maintains its cash and cash equivalents at a financial institution in accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in these accounts. The carrying amounts for cash equivalents approximate fair value because of the short maturity, high liquidity, and low risk of default associated with these instruments.

#### ***Revenue Recognition***

Advisory fees are charged on a quarterly or annual basis and received in full generally within one month of the contract execution with a client.

Company policy is to defer recognition of the advisory fee income, which is amortized (less a nominal set-up charge) on a straight-line basis over the life of the contract.

During 2010, the Company entered into an agreement with an unrelated Trust Company to provide advisory services. The Company receives 1% of total net assets that are under their management. Included in advisory fees is approximately \$1,450,000 and \$1,400,000 of fees earned under this agreement for the 2011 and 2010 fiscal years, respectively.

Investment income represents primarily dividend income earned, realized and unrealized gains and losses on mutual fund investments, brokerage trading accounts and other investments.

#### ***Commissions***

Commission expense represents the portion of advisory fees paid to brokers at such time as advisory fees are collected from clients. The commission expense is typically equal to 50% and in some cases can be increased up to 70% of the advisory fee charged. The recognition of the commission expense is deferred as prepaid commissions and recognized in the same manner as advisory fee income.



# **BTS ASSET MANAGEMENT, INC.**

## ***Notes to Balance Sheets***

### ***Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)***

#### ***Trading Marketable Securities***

Trading marketable securities consist of mutual funds and high-grade equity securities. The cost of investments sold is determined on the specific identification or first-in, first-out method.

#### ***Advisory Fees Receivable***

An allowance for doubtful accounts may be established based on a detailed review of the advisory fees receivable. The factors influencing management's judgment of the adequacy of the allowance for doubtful accounts include historical losses, knowledge of the customer's business and current economic conditions. Advisory fees receivable are written off at the time management feels that the possibility of collection is remote. At December 31, 2011 and 2010, there was no allowance for doubtful accounts.

#### ***Property and Equipment***

Property and equipment are stated at cost. Major additions are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation is provided over the assets' estimated useful lives of three to seven years using the straight-line method.

#### ***Income Taxes***

The shares of the Company are owned by BTS Asset Management Trust (the "Trust"), a Massachusetts Business Trust. The Trust, with the consent of its shareholders, has elected to have the Company be treated as an S Corporation for Federal income tax purposes, whereby all income and losses of the Company are reported by the shareholders on their individual tax returns. For state tax purposes, Massachusetts requires the income and losses of the Company to be reported on the shareholders' individual tax returns. The Company is subject to state excise taxes and a state entity level tax.

#### ***Uncertain Tax Positions***

The Company accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense.

In addition to the Company's tax status, the Company has other tax positions that have been determined to be highly certain and, therefore, no reserve for unrecognized tax liability is deemed necessary. The Company is not under examination by any taxing jurisdiction. The Company's Federal and state income tax returns are generally open for examination for three years.

# **BTS ASSET MANAGEMENT, INC.**

## ***Notes to Balance Sheets***

### ***Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)***

#### ***Fair Value Measurements***

The Company follows the fair value standard which is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under this change must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes how to measure fair value based on a three-level hierarchy of inputs, of which the first two are considered observable and the last unobservable.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

**Level 1** - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 include mutual funds and publically traded equity investments.

**Level 2** - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans and public company equity securities with legal restrictions.

**Level 3** - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include investments in privately held portfolio companies, promissory notes to privately held companies and interests in other investment partnerships.

At December 31, 2011 and 2010, trading marketable securities and the investment in the BTS Asset Allocation/High Yield Fund LLC (see Note 2) are all considered Level 1 as the underlying securities are primarily in mutual funds traded in active markets.

#### ***Subsequent Events***

The Company has evaluated subsequent events through March 9, 2012, the date the financial statements were authorized to be issued.

# **BTS ASSET MANAGEMENT, INC.**

## ***Notes to Balance Sheets***

### ***Note 2 - Investment in LLC***

The Company is the managing member of BTS Asset Allocation/High Yield Fund LLC (the “LLC”). At December 31, 2011 and 2010, the investments consisted of cash and cash equivalents, various high yield securities and mutual funds with readily available market values. During 2010, the Company received \$800,000 of distributions from the LLC. The LLC is required to pay BTS a monthly management fee at an annual rate of 1.5% of the assets under management, calculated monthly and payable quarterly. Management fees earned were approximately \$62,000 and \$59,000 for December 31, 2011 and 2010, respectively, which are included in the carrying value of the investment. At December 31, 2011 and 2010, respectively, approximately \$185,000 and \$91,000 of advances were made to the LLC which are included in advances to related parties.

### ***Note 3 - Margin Loan***

The Company has available a thirty-day margin investment account to utilize in its investments in mutual funds and high yield corporate securities. The margin loan cannot exceed 50% of the investment market value. If there is a decline in the market value of the investment and the margin loan then exceeds 50%, the Company would have to pay down the loan within a specified period of time so that it is in compliance. There was no outstanding balance on the margin loan at December 31, 2011 or 2010.

### ***Note 4 - Related Party Transactions***

As of December 31, 2011 and 2010, the Company had \$42,082 in non-interest bearing advances to various related companies which are controlled by the majority shareholder of the Company.

The Company paid BTS Securities Inc., a company controlled by the majority shareholder of the Company, approximately \$43,000 in 2011 and 2010 for signature guarantee services.

### ***Note 5 - Commitments and Contingencies***

The Company leases its office facilities under an operating lease. The lease provides for fixed monthly rentals plus escalation for real estate taxes and operating costs. During 2009, the Company amended the lease and moved to a new space in the same building. The amended lease has monthly base rental expense of \$22,847 increasing to \$25,562 over the life of the lease expiring in November 2014. The Company has an option to extend the lease for five years. Rent expense for 2011 and 2010 totaled approximately \$288,000 and \$302,000, respectively.

The Company also leases equipment under various operating leases. Lease expense totaled approximately \$94,000 and \$102,000 for 2011 and 2010, respectively. Lease terms expire at various times through June 2014.

# **BTS ASSET MANAGEMENT, INC.**

## ***Notes to Balance Sheets***

### ***Note 5 - Commitments and Contingencies (Continued)***

Future minimum lease payments on operating leases as of December 31, 2011 are as follows:

2012	\$	352,000
2013		336,000
2014		<u>291,000</u>
<b>Total</b>	<b>\$</b>	<b><u><u>979,000</u></u></b>

From time to time, the Company is involved in legal proceedings and litigation arising from the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation will not materially affect the Company's financial position.

### ***Note 6 - Profit Sharing***

The Company has a contributory 401(k) profit sharing plan. To be eligible to participate in the plan, an employee must complete six months of service. The Company made contributions of approximately \$202,000 and \$229,000 during 2011 and 2010, respectively.

### ***Note 7 - Concentration of Credit Risk***

At December 31, 2011 and 2010, one mutual fund accounted for 93% and 99% of the trading marketable securities, respectively.

## **BTS Asset Management Privacy Policy**

### **To BTS Asset Management Customers**

It is the policy of BTS Asset Management to safeguard nonpublic personal information about our customers against unauthorized disclosure. Customer information will not be shared or disclosed to any entity other than third party affiliates or third party financial service providers with whom we are required to share information in the normal performance of our duty to our customers or as required or permitted by law for legal, regulatory or other purposes.

BTS Asset Management values you as a customer and respects your right to privacy. We recognize that you purchase our services because you trust that we will stand behind our promises. In turn, we are committed to treating your information responsibly. BTS has established the following policies to assure you that we are committed to protecting your privacy.

#### **Protecting the confidentiality and security of nonpublic personal information.**

We maintain physical, electronic and procedural safeguards to ensure your personal information is treated responsibly and in accordance with our privacy policy. We restrict access to your nonpublic personal information within our organization to a need to know standard. Employees who have access to customer information may use it only for legitimate business purposes.

#### **What personal information do we collect about you?**

We collect information about you from the following sources:

Information we receive from you on applications or other forms, such as your name, address, beneficiaries, family member information, assets, income, and property locations and values.

Information about your transactions with our affiliates or us, such as your account balance, fees paid or method of purchase.

#### **What categories of information do we disclose and to whom?**

We disclose the following information only to third party financial service providers as required to perform the service for which we have been contracted or as required or permitted by law for legal, regulatory or other purposes:

Examples of information that we may provide to third party financial service providers:

- Exchange signals to sales representatives.
- Information about whether a fee has or has not been paid.
- Has a customer returned their renewal notice?

Examples of information that we may request from third party financial service providers:

- Account balances.
- Has payment for fees been released?
- Have directed exchanges from one fund to another fund actually occurred?
- Have there been any additions to or withdrawals from the account?
- Information about your transactions with us, or our affiliates, or others, such as your account balance, and fees paid.

#### **Questions?**

We value our customers and want you to understand how we use the information we collect. If you have any questions about our privacy policy please contact us toll free at (800) 343-3040.

This privacy statement describes our privacy practices for both current and former customers. We will provide one copy of this notice to joint contract holders; please share this information with everyone covered by your contract. Upon your request, we will send additional copies of this statement.