

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

Item 1 Cover Page

Name: Portfolios, Inc.

Business Address: 750 N. St. Paul, Suite 1300  
Dallas, Texas 75201-3250

Contact Information:

Telephone: 214-720-9101

Fax: 214-871-8948

Email: [lawson@portfoliosinc.com](mailto:lawson@portfoliosinc.com)

This brochure provides information about the qualifications and business practices of Portfolios, Inc. If you have any questions about the investment management services offered, please contact us at 214-720-9101.

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

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

March 23, 2012

## Material Changes

There have been no material changes made to Part 2A of Form ADV (the “Brochure”) since our prior Brochure dated March 15, 2011 was sent to you.

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## Advisory Business

Portfolios, Inc. (Portfolios) is an investment management company owned 100% by Lawson Investments, Inc. which is 100% owned by Cadmus K. Lawson, a Chartered Financial Analyst. Portfolios has been in business since 1971 and had assets of \$167.5 million under management as of February 29, 2012. 100% of the assets under management are managed on a discretionary basis, although clients may impose restrictions on investing in certain securities or types of securities. Portfolios' only income is derived from fees received for investment management services and related administrative services. Portfolios is not owned or affiliated with any broker, bank, insurance company or financial planner. It is an independent, "fee-only" investment management company.

Portfolios provides continuous investment management services for investment portfolios. It also provides investment counseling services in connection with the establishment of objectives for investment portfolios and develops strategies to achieve those objectives. Portfolios does not have custody of client assets and does not execute securities transactions. Portfolios does, however, place and direct security orders with brokers and co-ordinates the trading activity with custodian banks and brokers on behalf of clients as part of its management services.

Portfolios investment approach is oriented to a longer term time horizon and involves the full-time management of marketable securities including bonds (taxable and tax-exempt), equity investments and cash equivalents. Clients offered management services include profit-sharing trusts, IRA rollovers, charitable foundations, and individuals, including trusts, estates and partnerships.

## Fees and Compensation

### **PORTFOLIOS, INC.**

#### **QUARTERLY FEE SCHEDULE**

##### Funds Available for General Equity Investment (Excluding Mutual Funds)

.20 of 1% . . . . . On first \$500,000  
.15 of 1% . . . . . On second \$500,000  
.10 of 1% . . . . . On assets over \$1,000,000

##### Funds Designated for Bond, Mutual Fund and Cash Equivalent Investments

.0625 of 1% . . . . . Per Quarter

##### Minimum Fee on Overall Account

\$300 per quarter with a minimum annual charge  
of \$1,200

Portfolios' management fees are charged at the end of each quarter based on the market value of the portfolio at the start of the quarter. Fees are either deducted from the assets under management or billed to the client. Fees are generally not negotiated but the option to adjust fees for unusual or special circumstances, with prior consultation and agreement, is reserved.

Unrelated to Portfolios management fees, custodian fees may be charged by the custodian holding the securities under management. Also, brokerage and related transaction costs are charged by brokerage firms executing transactions. (See item 12 addressing brokerage services for additional information.) Please note that Portfolios does not share in any way in custodian or brokerage charges.

## Performance-Based Fees and Side-By-Side Management

None – Not Applicable.

## Types of Clients

Portfolios, Inc. offers and performs investment management services for individuals, trusts, partnerships, profit sharing trusts, IRA rollovers, charitable organizations and manages a no-load mutual fund that has a growth investment objective.

## Methods of Analysis, Investment Strategies and Risk of Loss

Investment objectives for a portfolio are developed through a review of the client's overall financial position, future prospects and plans, a determination of the purpose of the investment funds involved and the financial objectives that are sought. Analysis is made of the assets that are available for management, cash flow prospects and/or withdrawals that can be expected and other information that would have an influence on the composition and objectives of an investment portfolio being placed under management.

Information is obtained through analysis of financial information provided by the client and in direct consultation with the client. Such information serves as a basis for portfolio structure and investment recommendations made to a client prior to Portfolios' acceptance of investment management responsibility.

Investment objectives are typically oriented to a longer term time horizon. The investment objectives and structure of an investment portfolio are reviewed and adjusted as needed over the course of the ongoing investment management relationship Portfolios maintains with a client.

Marketable securities, by their nature, fluctuate in price and can be impacted by unforeseen developments that can affect investment results. While diversification of assets in terms of types of securities used in a portfolio can moderate the overall risk level of a portfolio, clients should be aware of and prepared for potential market risk of loss.



## Disciplinary Information

There have been no material legal or disciplinary events involving Portfolios, Inc. or any of its management personnel.

## Other Financial Industry Activities and Affiliations

Portfolios has no other financial industry activities and affiliations.

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

Portfolios, Inc. has a Code of Ethics in compliance with the Investment Advisers Act, the Investment Company Act and the Insider Trading and Securities Fraud Enforcement Act.

Portfolios and its personnel do not participate or have any financial interest in client transactions. The terms and conditions of any personal investment activity by Portfolios' personnel are strictly defined and limited by the Firm's Code of Ethics. In the event an employee of Portfolios purchases or sells a security, it would only be done following the completion of any client transactions planned in such security.

Portfolios is happy to provide a copy of its Code of Ethics to any client or prospective client upon request.

## Brokerage Practices

Portfolios is normally given the responsibility by a client of selecting brokers for execution of security transactions. It is Portfolios' policy to seek the best price and execution available. Portfolios believes that these objectives are not necessarily served by seeking the lowest negotiated commission rates obtainable. In some cases, the commission rate negotiated by Portfolios may be higher than the lowest rate available from other sources.

When placing an order for the purchase or sale of an equity security that involves multiple accounts (a block trade), the transaction is aggregated at the time it is placed with the executing broker and the average per share price received for the block trade is applied to all of the individual accounts involved in the trade. Also, the per share commission on a block trade is the same for all shares involved in the trade, subject to minimum ticket charges by the executing broker.

Within the parameters of best price and execution, Portfolios usually gives preference in the execution of equity transactions to those brokers who routinely provide proprietary investment research. Research received includes a broad spectrum of information including reports on individual companies, specific industries, investment strategy and economic analysis.

The flow of investment research from various sources is an important resource that is used in connection with the management of all managed portfolios whether or not a portfolio paid commissions to the research-providing broker. Investment management fees are not reduced as a result of commissions paid by clients to brokers providing investment research and there is no cost to Portfolios in receiving such research.

The receipt of the research is a benefit to Portfolios in that it enables access to a broader scope of investment research to use in connection with the investment management of client portfolios at a lower cost than would be the case if Portfolios generated the investment research internally.

In those instances where a client selects the broker to execute transactions for his account, the negotiation of the brokerage commissions is the responsibility of the client and higher or lower commissions and less or more favorable prices may result.

## Review of Accounts

All investment portfolios are managed on an ongoing, day-to-day basis by Cadmus K. Lawson, President of Portfolios. Investment actions are taken as required by market conditions, changes in economic outlook, new investment opportunities, developments in existing portfolio investments and changes or adjustments in client investment requirements.

Written reports are provided to clients on a quarterly basis. These reports include detailed information on the composition of a client's portfolio and other information that gives the client a broad and detailed picture of the investment portfolio. In addition, reports include a financial reconciliation of the investment results for the period covered by the report. Clients also receive transaction letters from Portfolios giving information on all bond and equity transactions.

The quarterly reports and transaction letters provided by Portfolios are in addition to statements the client receives from the custodian of the managed securities and the confirmations received from brokers executing security transactions.

## Client Referrals and Other Compensation

No compensation is made to anyone for the referral of clients.

## Custody

Portfolios does not have the custody of any of the assets of a client. All portfolio assets are held in a custodian account carried in the name of the client. The custodians are primarily bank custodians. In a limited number of cases, a brokerage firm designated by the client has custody.

## Investment Discretion

Investment portfolios are managed by Portfolios under a Letter of Agreement that describes the services to be provided and includes a Limited Power of Attorney. The power of attorney allows Portfolios to direct purchase and sale of securities through brokers on a discretionary basis in connection with the management of a client portfolio. Portfolios is also authorized, on client instructions, to direct disbursements from the custodian to the client address of record and to bank accounts carried in the client name. All other disbursements of cash or securities must be authorized by written instructions from a client to the custodian of the account assets.



## Voting Client Securities

Portfolios does not vote the proxies of the securities under its management. The custodian of the securities is responsible for forwarding proxies to the owner of the securities for action. Clients are encouraged to contact Portfolios as needed with any questions concerning a proxy solicitation.

## Financial Information

Not applicable.

## Requirements for State-Registered Advisers

Not Applicable.

Brochure Supplement (Part 2B of Form ADV)

Supervised Person

Cadmus K. Lawson

Portfolios, Inc.

750 N. St. Paul, Suite 1300  
Dallas, Texas 75201-3250

(214-720-9101)

This brochure supplement provides information about Cadmus K. Lawson that supplements the Portfolios Inc. brochure. You should have received a copy of that brochure. Please contact Portfolios if you did not receive the Portfolios' brochure or if you have any questions about the contents of this supplement.

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

March 23, 2012

## **Educational Background and Business Experience of Cadmus K. (C. K.) Lawson**

C. K. Lawson is the President and Director of Portfolios, Inc. He manages the investment portfolios for the clients of Portfolios, Inc. and is a Chartered Financial Analyst (CFA) and has been since 1974 (see additional information below).

In terms of personal background, Mr. Lawson was born in 1936 and received a Bachelor of Business Administration degree in 1958 from the University of Texas at Austin where he majored in Finance. Following graduation, from the fall of 1958 until the spring of 1962, Mr. Lawson served in the U. S. Air Force.

From 1962 to the fall of 1964 he attended New York University Graduate School of Business and majored in Finance. During that period he also worked full time in the Investment Counsel Department of the Bank of New York in New York City.

In 1964 Mr. Lawson joined Schneider, Bernet & Hickman, Inc. (SBH), a regional brokerage firm headquartered in Dallas, Texas, as an investment research analyst. In 1965 he organized and started a fee-based investment management service for SBH. In 1971 the investment management service was transferred to Portfolios, Inc., a wholly-owned subsidiary of SBH.

In October 1981, Lawson Investments, Inc., a corporation established and controlled by Mr. Lawson, purchased 100% of Portfolios, Inc. from SBH. Since that time Mr. Lawson has directed the investment management services offered by Portfolios, Inc. Mr. Lawson is also President and a Director of Armstrong Associates, Inc., a no-load mutual fund that was first offered to the public in 1968, for which Portfolios, Inc. is the investment manager. He is also a member of the Small Funds Committee of the Investment Company Institute.

*The following information is a statement provided by the CFA Institute describing the CFA Charter:*

### **CFA Charter Financial Advisor Statement for SEC Form ADV**

The Chartered Financial Analyst (CFA) charter is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals.

There are currently more than 90,000 CFA charterholders working in 135 countries. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

**High Ethical Standards**

The CFA Institute Code of Ethics and Standards of Professional Conduct, enforced through an active professional conduct program, require CFA charterholders to:

- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

**Global Recognition**

Passing the three CFA exams is a difficult feat that requires extensive study (successful candidates report spending an average of 300 hours of study per level). Earning the CFA charter demonstrates mastery of many of the advanced skills needed for investment analysis and decision making in today's quickly evolving global financial industry. As a result, employers and clients are increasingly seeking CFA charterholders—often making the charter a prerequisite for employment.

Additionally, regulatory bodies in 19 countries recognize the CFA charter as a proxy for meeting certain licensing requirements, and more than 125 colleges and universities around the world have incorporated a majority of the CFA Program curriculum into their own finance courses.

**Comprehensive and Current Knowledge**

The CFA Program curriculum provides a comprehensive framework of knowledge for investment decision making and is firmly grounded in the knowledge and skills used every day in the investment profession. The three levels of the CFA Program test a proficiency with a wide range of fundamental and advanced investment topics, including ethical and professional standards, fixed-income and equity analysis, alternative and derivative investments, economics, financial reporting standards, portfolio management, and wealth planning.

The CFA Program curriculum is updated every year by experts from around the world to ensure that candidates learn the most relevant and practical new tools, ideas, and investment and wealth management skills to reflect the dynamic and complex nature of the profession.

To learn more about the CFA charter, visit [www.cfainstitute.org](http://www.cfainstitute.org).