

# Schuchard Capital Management, Inc.

Part 2A of Form ADV: Firm Brochure – Annual Update Prepared March 2012

## **Business and Contact Information**

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## **Introduction/Background**

This Firm Brochure provides information about the qualifications and business practices of Schuchard Capital Management, Inc. (herein referred to as “we” or “our firm”). Please contact us with questions (see above Business and Contact Information).

The United States Securities and Exchange Commission (SEC) requires the Firm Brochure of all of its registered investment advisers.\* The Brochure replaces the former SEC Part 2A of Form ADV “check-box” format document provided to you in the past.\*\* It is not approved or verified by the SEC or any state securities authority. This Brochure is also available on the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Summary of Material Changes**

There have been no material changes to our qualifications or business practices as described in our Firm Brochure and Supplements since our previous annual update in March 2011.

\*SEC Registration is required strictly on an adviser’s level of client assets under management. The SEC does not impose minimum skills or training requirements for registered advisers.

# Schuchard Capital Management, Inc.

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# Schuchard Capital Management, Inc.

## **Advisory Business**

Michael R. Schuchard established Schuchard Capital Management, Inc. in 1989. He is the sole stockholder of the Michigan corporation. From 1986 through 1988, he practiced under the name Winchester Management & Research, Inc., a Massachusetts corporation.

We take pride in providing objective and unbiased investment advice to clients and conducting all aspects of our business with great integrity. Beyond portfolio management and financial planning, we coordinate and implement estate planning and tax planning by working closely with our clients and their attorneys and accountants.

## **Advisory Services**

We primarily provide continuous and regular investment supervisory services to clients. We also provide periodic consultations at a negotiated service level. Typical components of our advisory services are:

- Assessing initial goals and changes in objectives over time or in light of new circumstances.
- Developing a portfolio based on various factors including investment objective, risk tolerance, age, income, cash needs, liquid assets, net worth, and tax bracket.
- Preparing/updating a cash flow analysis and/or financial plan.
- Providing portfolio valuations, at least quarterly, detailing the status of the portfolio and its holdings.
- Providing year-end tax summaries annually, when applicable.

# Schuchard Capital Management, Inc.

## Types of Investments

Portfolios tend to fall into one of four broad investment objective categories:

- Growth
- Balanced
- Income Only
- Preservation of Capital

Investment objectives may be further tailored to suit a particular client. For example, a Growth Portfolio may be designed to provide varying degrees of growth and risk as follows:

- All Equity Growth
- Aggressive Growth
- High Growth

Once a portfolio objective is established, an appropriate asset mix is developed using the following asset classes:

- Cash & Equivalents
- Fixed-Income Securities
- U.S. Common Stocks
- Foreign Common Stocks

Asset allocations are further defined into subclasses. For example, an allocation to U.S. Common Stocks may include:

- U.S. Large Cap Market Stocks (Blended)
- U.S. Large Cap “Value” Stocks
- U.S. Small Cap Market Stocks (Blended)
- U.S. Small Cap “Value” Stocks

# Schuchard Capital Management, Inc.

## **Types of Investments, Continued**

In selecting particular investments within an asset class, we favor no-load index mutual funds with low expense ratios.

We may use other types of investments at our discretion or upon a client's request including, but not limited to, the following:

- No-load actively managed mutual funds
- Exchange traded funds (ETF)
- Individual stocks traded over various exchanges
- Foreign issuers
- U.S. Government securities
- Municipal securities
- Corporate debt securities
- Certificates of deposit

Rarely, we may use the following types of investments:

- Warrants
- Options
- Commercial paper

We honor restrictions imposed by clients as to the types of securities to be held in their portfolios.

# Schuchard Capital Management, Inc.

## **Assets under Management**

As of December 31, 2011, client assets under our management totaled \$131,600,000.00 of which \$124,000,000.00 or 94% are managed on a discretionary basis through continuous and regular supervisory services and \$7,600,000.00 or 6% are managed on a nondiscretionary basis through periodic consultations. (See Investment Discretion on Page 15.)

## **Fees and Compensation**

Our only source of revenue is derived from client fees based on assets under management and, occasionally, from consultation fees. This compensation structure allows us to provide objective and unbiased investment advice to clients, eliminating any conflicts of interest. We do not receive:

- Additional compensation based on the performance of client portfolios.
- Any form of commissions or fees from selling investment products.
- Kickbacks or soft dollar arrangements from broker-dealers, custodians, or any other investment companies.
- Referral fees from clients or from colleagues including other investment advisers, attorneys, and accountants.\*

\*We also do not offer referral fees to clients or colleagues.

# Schuchard Capital Management, Inc.

## **Fees and Compensation, Continued**

Advisory fees are calculated annually using the beginning of the year total portfolio market value of assets under management and the following rate schedule (stated as an annual rate):

1.000% of the first \$300,000  
0.007% of the next \$700,000  
0.004% of the next \$1,000,000  
0.003% of the next \$2,000,000  
0.002% of the balance exceeding \$4,000,000

As mentioned earlier, fees may be negotiated with any client based on the level of services provided.

One-fourth of the annual fee is payable at the beginning of each quarter.

Clients have the option of providing us authorization to deduct fees directly from their investment account or to be billed by invoice. We encourage clients who choose to have us deduct fees from investment accounts to verify accurate billing by referencing the appropriate monthly statement mailed directly from the custodian. The custodian is not responsible for verifying accuracy of fee calculations or billings.

Either the client or adviser may terminate the advisory relationship at any time. Advisory fees will be refunded on a pro rata basis in the same manner they were originally billed (i.e., returned to the investment account if originally directly deducted or issued a refund check if originally billed by invoice).

Clients whose assets are invested in mutual funds (including no-load funds) are paying two advisory fees: (1)an investment advisory fee to Schuchard Capital Management, Inc. (see fee schedule described above) and (2)an additional advisory fee to the mutual fund company (via expense ratios).

# Schuchard Capital Management, Inc.

## **Fees and Compensation, Continued**

In addition, other client costs include purchase and redemption fees, if applicable, and transaction costs charged by the executing broker.

Clients have the option to purchase investment products that we recommend through any broker, custodian, or agent of their choice. (See Brokerage Practices on Page 10 and 11).

## **Types of Clients**

Our client base consists of individuals, trusts, pension and profit sharing plans, estates, and charitable organizations.

## **Methods of Analysis**

Our method of analysis is derived from historical performance data of the various asset classes. We do not use past returns to predict future returns or to “time” the market. Instead, we use the data to understand the relationship between asset classes and the correlation of returns between them. This, in turn, influences the asset class mix used in our investment strategies. For example, past data shows that “value” outperform “market” stocks over time, just as “small cap” outperform “large cap” stocks, leading us to view “small cap value” stocks as an important asset class in building long-term wealth.



# Schuchard Capital Management, Inc.

## **Investment Philosophy and Strategies**

Asset allocation dominates our investment philosophy. We believe the proper mix of assets is essential to successful investing of any portfolio.

Portfolio investment strategies are driven by client objectives, cash flow needs, age, risk aversion, and other factors. Clients with current portfolio cash flow needs will typically have a Balanced strategy. Clients saving to fund future cash flow needs will typically have a Growth strategy. Occasionally, clients will have an Income Only or a Preservation of Capital strategy. Aside from an extremely conservative strategy, most portfolios will have some or significant exposure to Common Stocks and/or Fixed-Income Securities. This exposes the portfolio to risk.

To minimize risk, current and some future cash flow needs are invested in Cash & Equivalents and/or Fixed-Income Securities. This “safe” money provides a level of insulation from stock market fluctuations. Typically, the remainder of the portfolio is designated for growth and invested accordingly in U.S. and Foreign Common Stocks.

We prefer no-load index mutual funds to other investment vehicles. We also use Tax-Managed or Tax-Advantaged index funds, when applicable. Asset allocation and index investing seem to go hand in hand. Index funds mirror the market and provide the purest exposure to an asset class. They are fully invested in their sector of the market, unlike actively managed funds which may hold large cash positions. Style drift (holding stocks that do not meet fund criterion) is avoided with index investing, though it may plague actively managed funds. Index funds provide the additional benefit of lower expense ratios than their actively managed counterparts.

# Schuchard Capital Management, Inc.

## **Investment Philosophy and Strategies, Continued**

Following an asset allocation philosophy requires regular re-balancing of portfolios because different asset classes will grow at varying rates. Re-balancing to the original mix of assets forces taking profits from the areas that have grown, and may under perform in the future, and adding to the areas that have lagged and may outperform going forward. In other words, it promotes selling high and buying low.

Adhering to these three principles: (1)asset allocation, (2)low-cost index investing, and (3)regular re-balancing allows us to focus on the long-term goals of the portfolio and remove, or at least minimize, emotions from impacting investment decisions. Having a solid and historically proven investment philosophy allows us to avoid “chasing” performance, attempting to “time” the market, or succumbing to anxiety created by market volatility and exploitation by the media.

## **Risk of Loss**

Investing in Common Stocks and Fixed-Income Securities carries a high degree of risk. Substantial losses could be experienced in a short period of time with no guarantee that such losses will be recovered.

## **Disciplinary Information**

There have been no legal or disciplinary actions against our firm or employees.

# Schuchard Capital Management, Inc.

## **Other Financial Industry Activities and Affiliations**

Our firm and employees have no affiliations with any other financial industry firms and/or persons (i.e., custodians, broker-dealers, investment companies, banks, insurance companies, pension administrators, other financial advisers, attorneys, accountants, etc.), thereby eliminating conflicts of interest.

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

Our Code of Ethics establishes standards of business conduct emphasizing our fiduciary obligations and requiring compliance with federal securities laws. We also enforce a “Securities Transaction Policy” and an “Insider Trading Policy” to prevent potential conflicts of interest. All employees must annually acknowledge their requirement to comply with these provisions.

Employees may, from time to time, purchase or sell securities also recommended to our clients. We prohibit employees from trading such securities in client accounts in order to manipulate the market for personal benefit. However, the opportunity for market manipulation by an employee is minimal simply because individual stocks are not our primary investment vehicle and those that we may hold or recommend typically have large trading volumes.

We regularly review each employee’s personal securities holdings. Adviser approval is also required prior to certain types of investments. Disciplinary action will be swiftly implemented in the event of a violation.

Upon request, we will provide a complete copy of our Code of Ethics, Securities Transaction Policy, and Insider Trading Policy (see Business and Contact Information on Cover Page).

# Schuchard Capital Management, Inc.

## **Brokerage Practices**

Our firm recommends, but does not require, that clients establish brokerage accounts with Schwab Institutional, a division of Charles Schwab & Co., Inc. We are not representatives of Schwab or any other custodian, brokerage firm, or investment company. With further respect to such companies:

- We do not direct trades.\*
- We do not receive soft dollar benefits.
- We do not receive client referrals.\*\*

Schwab provides us access to its institutional trading and custody services for our clients at no charge to us as long as we maintain at least \$10 million of client assets with them. There are no other requirements in terms of transaction fees or trading commissions that we must generate for Schwab.

Schwab does not charge our clients separately for custody services, but is compensated by account holders for trades executed in their accounts. Schwab imposes a standard mutual fund transaction fee schedule for institutional adviser clients. Their commission rates charged on common stock trades vary based upon the level of client household assets.

We use the Schwab Institutional website and SchwabLink software to access client account data, to submit trades for execution, and to facilitate payment of our advisory fees from client accounts. We do not receive any product or service of unique value from Schwab, compared to that provided by any other custodian.

\*Clients may select a custodian other than Schwab.

\*\*New clients are often referred to us by existing clients or colleagues, but we do not offer or receive referral fees.

# Schuchard Capital Management, Inc.

## **Brokerage Practices, Continued**

When feasible, we utilize trade aggregation to purchase or sell individual equities and/or fixed-income securities for multiple client accounts in a single transaction. The purpose of trade aggregation is achieving impartiality among client accounts. Our policy is to allocate the purchases or sales to client accounts based on the average fill price for that aggregated transaction. Schwab imposes a separate commission (a household asset-based fee) to each account that is allocated a portion of the aggregated transaction.

## **Review of Accounts**

For continuous and regular investment supervisory clients, ongoing adviser reviews of portfolios are conducted at least quarterly. Changes in a client's objectives and/or market conditions that warrant re-balancing may prompt additional reviews.

For consulting clients, periodic reviews of portfolios are conducted based upon the negotiated level of service to meet the client's preference, with no interim reviews.

Valuation reports detailing the status of the portfolio and its holdings are provided to continuous and regular investment supervisory clients at least quarterly, though not necessarily at the end of the quarter. For consulting clients, valuation reports are provided according to the negotiated level of service to meet the client's preference.

These quarterly valuation reports include year-to-date performance, a summary of current year account activity, unrealized taxable gains and losses, and realized taxable gains and losses for the current year. Our reports are supplemental to monthly statements mailed directly to clients by the custodian. We encourage clients to review share quantities, asset values, deposits, withdrawals, and other transactions from our valuation reports with their most recent monthly statements for reasonability.

# Schuchard Capital Management, Inc.

## **Review of Accounts, Continued**

Financial plans are typically included with year-end valuation reports. These plans provide a summary of historical account activity and performance and may forecast future cash flow needs, savings, and portfolio growth.

Year-end tax reports are also provided to clients, when applicable, for use in preparing their income tax returns. These tax reports include information on realized gains and losses, information on charitable gifts of securities made from the portfolios, investment advisory fees paid, supplemental information related to income derived from U.S. Government Securities for assets held in the portfolio, and supplemental state-specific information related to any tax-exempt securities held in the portfolio.

## **Client Referrals and Other Compensation**

As discussed under Fees and Compensation (Page 4 – 6), our only source of revenue is derived from client fees based on asset levels under management and, occasionally, consultation fees. We do not offer or receive referral fees from clients, colleagues, custodians, brokers, or anyone else, thus eliminating any conflicts of interest.

# Schuchard Capital Management, Inc.

## Custody

Custody of assets has become an important topic in light of recent financial industry frauds. With accounts held at an independent custodian, such as Schwab, client investment accounts are automatically provided an extra layer of security against fraud. Monthly statements are mailed to clients directly from the custodian allowing clients to closely monitor the status of their accounts. In addition, the custodian restricts our ability to act on behalf of clients based upon the authorizations clients provide us through a Limited Power of Attorney specifically designed for Investment Advisers.

There are three authorizations which clients may provide to us under the Limited Power of Attorney:

1. Trading Authority. Placing trades in client investment accounts is not considered to have custody. (See Investment Discretion on Page 16.)
2. Withdrawal Power. Though it may seem to the contrary, this authorization is also not considered to have custody. The reason being that we are only authorized to request checks in the name registered on the account and for mailing to the address of record on the account. In addition, we are only able to request MoneyLinks to client bank accounts per client instructions separately provided to the custodian.
3. Fee Authorization. We are considered to have custody of client assets solely because of client authorization provided to us to deduct advisory fees directly from investment accounts. Since the custodian is not responsible for verifying the accuracy of billings or fee calculations, the responsibility rests with the client.

# Schuchard Capital Management, Inc.

## **Custody, Continued**

We value our clients trust, hold ourselves to the very highest levels of integrity, and strive for 100% accuracy in all we do. Yet, we encourage clients to take the following actions to protect their investment assets:

1. Verify portfolio valuations used in calculating the annual advisory fee with the year-end statement(s) mailed directly from the custodian.
2. Verify accurate billing of quarterly advisory fees by referencing the transaction detail of the appropriate monthly statement(s) mailed directly from the custodian.
3. Compare the quarterly valuation reports we provide to the monthly statement(s) mailed directly from the custodian. Although our intermittent reports may show valuations during the quarter rather than at the end of the quarter, it is important to review for reasonability of share quantities, asset values, deposits, withdrawals, and other transactions.
4. Notify us promptly if a discrepancy is discovered so we may correct the error. (See Business and Contact Information on Cover Page).

Clients will see reminders of these responsibilities as legends on quarterly valuation reports and fee calculations.

## **Investment Discretion**

We manage client portfolios on both a discretionary and nondiscretionary basis depending on client preference. We select securities to be bought or sold and the amount of securities to be bought or sold consistent with the investment objectives established with each client. Though we may be granted Trading Authority by our periodic consultation clients, we do not consider ourselves to have discretion since trading is only prompted at the time of scheduled review.



# Schuchard Capital Management, Inc.

## **Voting Client Securities**

Our policy in regards to proxy voting and corporate reorganizations/actions is as follows:

1. We do not exercise proxy voting authority for client accounts.
2. We do not respond to corporate reorganizations/actions for client accounts.
3. We do not give instruction to clients in regards to proxy voting authority or corporate reorganizations/actions.

Unless clients have requested that we receive proxy voting and corporate reorganizations/actions materials on their behalf, they will receive these mailings directly from the custodian. Regardless of whether we receive mailings on behalf of clients or if clients receive them directly, our policy remains the same.

## **Financial Information**

For continuous and regular investment supervisory clients, prepayment of fees are solicited at the beginning of each quarter (three months in advance). For periodic consultation clients, fees are solicited at the time of the periodic review.

We have no financial condition that will likely impair our ability to meet our contractual commitments to clients.

We have never been the subject of a bankruptcy petition.

# Schuchard Capital Management, Inc.

## Part 2A of Form ADV: Firm Brochure Supplement Annual Update Prepared March 2012

### **Michael R. Schuchard, President**

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Michael R. Schuchard is President of Schuchard Capital Management, Inc. He acts as client portfolio manager and the sole provider of investment advice.

Michael was born in 1953. He attended Oakland University in Rochester, Michigan for his first two years of undergraduate studies. In 1976, he earned his Bachelor of Business Administration Degree (BBA), with a major in Accounting/Finance, from the University of Michigan in Ann Arbor, Michigan.

In 1986, Michael began his advisory practice in Massachusetts under the name Winchester Management & Research, Inc. He founded Schuchard Capital Management, Inc. in Michigan in 1989.

# Schuchard Capital Management, Inc.

## Part 2A of Form ADV: Firm Brochure Supplement Annual Update Prepared March 2012

### **Mary Susan Tringali, Chief Operations and Compliance Officer**

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Mary Susan Tringali is Chief Operations and Compliance Office for Schuchard Capital Management, Inc. Her main responsibilities include client portfolio performance reporting and tax reporting, client account services, general office management, and SEC filings and record keeping.

Mary Susan was born in 1967. She earned her Bachelor of Science Degree in Business Administration, with a major in Management, from Wayne State University in Detroit, Michigan in 1989.

Mary Susan began employment with Schuchard Capital Management, Inc. in 1993. She has acted as Chief Operations Officer since 1994 and assumed the role of Chief Compliance Officer in 2009.