



v.h.KING
ASSOCIATES



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**Form ADV Part 2
Brochure**

January 18, 2012

This brochure provides clients and potential clients with information about the qualifications and business practices of v. h. King Associates. For any questions about the contents of this brochure, please contact us at (510) 528-0271 and/or at vhking@vhking.com.

Please note that the information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, nor by any state securities authority. Find more information about v. h. King Associates on the SEC website: www.adviserinfo.sec.gov.

The IARD/CRD number for v. h. King Associates is **105705**.

v. h. King Associates is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

Item 2 – Material Changes since the last ADV Filing

There are no material changes to report since the Brochure was filed last March 30th.

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Item 4 – Advisory Business

A. Our Adviser and Our Firm

Virginia H. King is a Certified Financial Planner, and the sole proprietor of v.h. King Associates located at 2014 Los Angeles Ave., Berkeley, CA 94707-2429, USA; this address is also her private residence. v. h. King Associates is a portfolio management and financial planning firm which has been in business for twenty-seven years, since 1984. Virginia King has one associate, Alison C. Davies, an Investment Adviser Representative. They are the only people who perform investment advisory functions.

v. h. King Associates is an SEC-Registered Investment Adviser with no publicly held intermediate subsidiaries. Our SEC file number is: **801-31899**; our Central Registration Depository (CRD) number is: **105705**; Virginia's CRD Number is: **723993**; and Alison's CRD Number is: **5860661**.

Alicia Gonick and Anne-Lise Reusswig comprise our part-time support staff. They perform clerical duties and help maintain contact with clients and the Schwab Institutional Service Group. Two independent contractors carry out additional services: an IT consultant maintains our information systems, and an assistant helps Virginia execute her responsibility as Chief Compliance Officer.

B. Our Services

v. h. King Associates is a Registered Investment Adviser which offers both portfolio management and financial planning. Virginia H. King, the principal, provides analyses of existing investments and investment opportunities in light of a client's stated financial objectives. Investment recommendations are made based on the client's assets, liabilities, earnings, personal obligations, and their willingness to assume risk. We offer the following services:

Financial Planning –

We help clients establish and clarify personal financial goals, both long-term and short-term. As Virginia has been in practice for a quarter of a century, she has witnessed these goals shift over time as clients develop careers, raise families, become empty-nesters, and then retire. Her involvement in their on-going financial lives changes as well over time.

For younger clients, she might assist in spotting unhelpful spending patterns and help implement personal cash flow management; as they progress in their work, her emphasis might shift from spending to saving – or to purchasing a house; and then for older clients well into retirement, she will inform them on donations, bequests and trusts.

Part of our work in Financial Planning includes producing reports for and cooperating with clients' accountants, lawyers and pension administrators.

Portfolio management –

Virginia employs her investment strategy and practice in order to align her clients' portfolios with their financial goals.

v. h. King Associates issues no publications and maintains no web-site

C. Communication with our clients

Virginia King does tailor advisory services to the individual needs of clients. She holds an annual review with each individual or family to brief them on their portfolio performance. She listens to individual prospects, plans and needs, and gives advice, runs retirement projections and tailors portfolios based on those conversations. There is no limit to client communication by phone or email. Her main purpose is assisting clients with their financial lives and managing their portfolios; and her complementary objective is educating clients to become prudent, responsible investors.

We respect client wishes regarding both purchases and sales, and they may impose restrictions on investing; for instance, they might request that we purchase certain funds, maintain positions, or avoid specific sectors altogether (e.g., oil or gold). However, we do not encourage such client restrictions as they hinder Virginia's flexibility to respond to market opportunities, and may have an adverse effect on overall returns. When a client request does run contrary to our trading policies, we do warn the client about possible negative consequences on portfolio value. (See Item 16 below)

D. Wrap Fee Programs

We do not participate in any wrap fee programs.

E. Our Assets Under Management

As of January 9, 2012, v. h. King Associates had \$124,589,317.00 (in 422 accounts) in Assets Under Management,* all of which is managed on a discretionary basis; that is, all clients grant Virginia a Limited Power of Attorney to exercise trading authority over their portfolios.** We do not manage any assets on a non-discretionary basis. (Non-discretionary management means either that the client makes all trading decisions, or, that an advisor must obtain client consent before authorizing a trade.)

* In order to calculate our Assets Under Management, we consulted the instructions for completing Form ADV Part 1A, Item 5 F. (2), and arrived at the following policy: the principal, Virginia King, excludes not only her own trust and pension, but also all family and employee assets in the "Employee and Family Account". Accordingly, when calculating Assets Under Management, v. h. King Associates includes only client assets for which it receives a fee.

** When new clients sign a contract with v. h. King Associates, they also fill out a Schwab One® Account Application Agreement and sign a Schwab Limited Power of Attorney which gives Virginia unrestricted authority to make securities transactions through Schwab.

Item 5 – Fees and Compensation

A. v. h. King Associates is a fee-only Portfolio Management and Financial Planning Firm. All of our fees and income derive from providing investment supervisory services to clients. In our case, “Fee-only compensation” means “payment to a financial adviser of an agreed-upon percentage of assets under management, for a financial plan. Under this arrangement, the adviser receives no commissions on any transactions to implement the plan.” (Campbell Harvey’s Finance Glossary.)

Fees are not negotiable. Clients pay an annual fee charged quarterly, after service. Fee Schedule*:

On portfolios up to \$1,000,000	the fee is 1%
On any portion between \$1,000,001 and \$3,000,000	the fee is ½ %
On any portion over \$3,000,001	the fee is ¼%

* Our annual fees are well within the industry norm. The American Funds Glossary defines **asset-based fee** as an annual fee charged by some broker-dealers for advice, which usually ranges from 0.5% to 3% of assets.

B. v. h. King Associates charges all clients a percentage of assets under management for its services. Fees are automatically deducted from the client’s Charles Schwab account in the month following their quarterly report; thus, we bill clients four times a year.

C. Note that there are arguments against fee-only management:

“Investors should realize that this type of fee is a separate fee for managing one’s portfolio – one that is in addition to the normal operating expenses of the funds within the portfolio.”(Yahoo Finance.)

This is true on two levels:

1. Funds often charge a percentage of overall funds under management as a fee. Because v. h. King Associates charges a management fee based on assets under management, this will result in the client being charged, in effect, a double fee for those fund investments. While clients would be able to avoid this double charge if they made their own mutual fund investments, believe that keeping all assets together under unified management provides additional benefits and continuity that more than offset the additional fee. (See Item 12 below for more detail on brokerage fees.)
2. Virginia King manages portfolios, for the most part, by buying and selling funds (open-end, closed-end and ETFs) rather than individual stocks. It is her opinion that a fund comprised of many companies reduces risk for the investor, while reaping the advantages of the particular sector those companies represent.

To fulfill her trades, Virginia generally employs open-end funds from the Charles Schwab Mutual Fund OneSource[®] service, which currently offers more than 10,000 funds with no loads or transaction fees.

At times, she makes use of closed-end funds and exchange-traded funds (ETFs), for which Schwab does charge a fee of \$8.95 per trade*. Virginia receives neither fees nor commissions from Schwab for these trades, but she feels that the range of options offered by such vehicles expands investment possibilities and more than offsets the fee.

* All our clients benefit from Schwab's electronic equity trade pricing of \$8.95 per trade, except those few who have **not** enrolled in eDelivery (Schwab's paperless confirmations and statements program), AND whose portfolios are **less** than \$1 million, in which case, they pay \$19.95 per trade.

D. The client is fully informed of the fee schedule and agrees to all fees prior to signing a contract with us, and prior to services being rendered. Either the client or v. h. King Associates may terminate the investment advisory contract, without prejudice, at any time. In such a circumstance, the client is only charged a service fee, pro rata, through the termination date.

E. Neither Virginia King nor Alison Davies receives commissions for the sale of securities or funds.

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

v.h. King Associates does not accept performance fees. Every client is charged a fee based on a percentage of assets under management (*See* Item 5.A. above.)

Item 7 – Types of Clients

v. h. King Associates offers investment advice to individuals and families.

Virginia King does not accept new clients, but does help existing clients set up new accounts, no minimum required. Virginia also assists clients in establishing.

- Donor Advised Funds and Foundations
- Retirement Accounts
- UGMA (Uniform Gifts to Minors Act) accounts and ESAs (Educational Savings Accounts)

Subsequently, she may give investment advice to any one of these entities.

Alison Davies accepts new clients with a \$50,000.00 minimum required to open an account. While Alison handles financial planning for her clients, Virginia manages all client portfolios.

Item 8 – Methods of Analysis, Investment Strategies & Risk of Loss

Because of Virginia King's management style, there are no two identical portfolios. This is a function of portfolio size, length of time a client has been with us and their investment goals, as well as their tolerance for risk.

A. 1. Methods of Analysis

The main sources of information Virginia uses to analyze possible investments include:

- Financial newspapers and journals for information about new funds;
- Financial websites for price history and volatility information;
- The Schwab Advisor Services™ website to determine if a fund is a Schwab OneSource® fund;
- Fund prospectuses.

A. 2. Investment Procedure

Virginia and Alison obtain substantial background information about each client's financial circumstances, investment objectives, and risk tolerance through an initial in-depth interview. Additionally, they update information at the Annual Review meeting, and in periodic telephone and email communications with the client throughout the year.

During the Annual Review, Virginia and Alison assess the client's financial circumstances, investment objectives, portfolio performance, as well as market conditions, among other things, to confirm that their investment decisions and services are consistent with the client's objectives and goals. Discussions and decisions are recorded in the client database.

A. 3. Investment Strategy

"Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal."

- Benjamin Graham in *The Intelligent Investor*

Virginia's investment strategy for all clients is to buy low and sell high; which is to say:

Buy on the fear and sell on the greed; or:
Buy on the bad news; sell on the good.

In other words:

History has demonstrated that when there is no fear, when every investment is a "sure thing," and when there is too much "irrational exuberance," it is a sign that markets are approaching a peak. The opposite has also been true: when markets are possessed by fear and pessimism, then it is a good time to buy.

Virginia employs frequent trading of funds as well as dollar cost averaging to achieve this goal. She buys funds rather than individual stocks in order to achieve diversification, and to mitigate the risk of any one company failing

In researching funds, she looks for price volatility: that is, when a fund's price fluctuates dramatically – in either direction – over some period of time. Price volatility presents opportunities to buy shares on sale, and then later, to sell them to advantage, when the fund price rebounds.

She monitors portfolios monthly, and uses modified dollar cost averaging over time to lower the cost basis of those shares: buying more on the downside of fluctuations, and buying less – or even selling – on the up side.

In sum, utilizing funds reduces company-specific risk, while dollar cost averaging reduces market risk. The most important element of any strategy, according to Virginia, is that once it has evolved, the portfolio manager must stay consistent.

A. 4. Trading Strategy

To implement the overall strategy and any investment advice given to client, Virginia will:

- Make long term purchases (securities held at least a year) if it is a taxable account;
- Make short term purchases (securities sold within a year) if it is a non-taxable or retirement account.

Consistent trading rules achieve trading equity among all clients, and minimize conflict of interest between client portfolios and the Employee and Family Account.

In practice, Virginia reviews every client portfolio once a month, on the same day of the month. (See Item 13, Review of Accounts, below, for additional detail.) She pays special attention to investments that have appreciated 15% or more on an annualized rate-of-return basis, or have dropped 10% or more below cost basis.

If there is an appreciation of greater than 15%, Virginia will usually take profits. However, in order to minimize taxes on taxable accounts, profits are not taken until the issue shows a long-term (greater than 365 day) gain. Open-end funds in non-taxable accounts are held for a minimum of 90 days to avoid early withdrawal penalties imposed by either the fund or by Schwab. She repeats profit-taking on a discretionary basis until the original cost basis has been withdrawn.

If, on the other hand, an investment drops in value by 10% or more, and still warrants holding, then she will make additional purchases.

In order to minimize brokerage fees to her clients, Virginia trades, when possible, no-fee, open-end mutual funds available through Schwab Mutual Fund OneSource[®]. Otherwise, she buys closed-end funds and ETFs through Schwab, resulting in a per-trade fee of \$8.95. (See Item 5.C.2. above)

Virginia rarely buys stocks. However, she continues to manage legacy equity positions. Additionally, her practice does include certain legacy limited partnerships and annuities. All client assets (except legacy limited partnerships and annuities) are in custody at Schwab.

A. 5. Conclusion

At v. h. King Associates, there are no two identical portfolios. The only consistency – as set forth above – is how Virginia King manages. The strict procedural rules she follows tend to foster equal attention and care among and between all client portfolios. What follows are some examples of reasons for portfolio anomalies and differences

- Some clients request tax losses to wash gains; and this explains high rates of BUYS & SELLS in those portfolios.
- Sometimes, Virginia SELLS because a client is over-weighted in a category.
- Sometimes, Virginia SELLS because a client has held a security for more than five years and its performance is less than a 12% Internal Rate of Return.
- Sometimes, Virginia SELLS at client request (which is documented in the Account History of the Client Tracking database software.)
- Sometimes, Virginia SELLS because a fund changes management or policies.
- Sometimes, Virginia BUYS if the current price is at least 10% below average cost basis.
- Sometimes, Virginia BUYS new investments to maintain a diversified asset allocation.

Virginia receives no commissions, so “churning” is not an issue. (See Item 5 above, and Risks of Frequent Trading below)

B. 1. Risks of method of analysis

To implement her investment strategy, Virginia researches open-end funds, closed-end funds and Exchange Traded Funds. She looks for historical price data, which is available and verifiable in multiple publications of record, and therefore not subject to industry fads, self-reinforcing expert opinion, or misrepresentation by ratings agencies. The risk of her method of analysis is thus nil.

B. 2. Risks of investment strategy

As described above, Virginia King employs a long-term investment strategy that takes advantage of fund price volatility. A client’s portfolio can thus experience major volatility in overall valuation and in performance, especially in the early years of the relationship. Clients should therefore be prepared for those fluctuations and understand that, in general, investing involves risk of loss.

Virginia’s strategy of “buy low, sell high” succeeds as a function of market volatility: the greater the volatility, the more opportunities there are to trade. So, the risk inherent in this strategy is a market with no volatility: either a steady, slow growth market such as occurred in the U.S. during the 1950’s; or a stagnant market such as in Japan in the 1990’s.

To counter the risk of stagnant markets, VK uses diversification in countries and in asset classes, because rarely is every market flat for an extended period of time. (e.g., While Japan stagnated during the 1990’s, Russia, Mexico and the USA were all vibrant and volatile.)

As for asset class diversification: since records began, there has never been a decade exhibiting flat non-volatility across all sectors and in all countries. (e.g., domestic funds of the 1990's vs. energy in that decade.)

However, this market volatility – driven by unforeseen events, rapidly emerging technologies, or shifting populations – can have an extreme impact on any given business, wrecking its prospects overnight. Virginia counters **this** investment risk by investing in funds that spread risk across a range of companies, rather than in individual stocks.

B. 3. Risks of Frequent Trading:

Traditionally, frequent trading had a negative effect on portfolio returns because the broker charged a fee for each trade, and those fees bled a portfolio's total return – a method derisively dubbed “churning.”

To achieve her Portfolio Strategy, while at the same time minimizing brokerage fees for her clients, Virginia employs her Trading Strategy (outlined in Item 8 A. 4. above and recapitulated in Item 13 A. 5. below) to buy and sell funds for client accounts.

She fine-tunes a portfolio with monthly trades of the no-fee, open-end mutual funds available from Schwab OneSource®. For sectors of the portfolio served by closed-end funds and ETFs, Virginia attempts to restrict herself to quarterly trades, thereby capping a client's annual fees in any one of those issues at \$35.80 (4 x \$8.95.)

C. Risks of Funds

Funds are the preferred investment vehicle at v. h. King Associates.

As stated above, the types of funds we use are:

- Open-end mutual funds;
- Closed-end funds;
- ETFs.

There are five principle risks inherent in fund investing:

1. Changes in fund policy – which include changes in objective as well as name (e.g., a fund once devoted to China, converts into an emerging markets fund.)
2. A fund closes to additional deposits – it declares “No new additions.” thereby rendering dollar cost averaging futile. Then, Virginia seeks out an equivalent fund.
3. The fund terminates, or closes – it is logical that the fund management liquidates its assets precisely when the fund is down in value, so not only does Virginia lose a dollar cost averaging opportunity, but also the portfolio is left with a surfeit of cash, as the client's position is cashed out. Again, Virginia will attempt to find an equivalent fund, but it is not always possible.

4. For open-end funds – we cannot secure a guaranteed price, as fund share prices are fixed only once a day at market closing. Virginia must trade based on yesterday's price, and for this reason, the risk is that she cannot guarantee a price through a limit order.

5. For thinly traded closed-end funds and ETFs – the risk is slow execution. Schwab does not guarantee timely execution on many of these orders, especially large orders. To address this problem, Virginia puts in a good 'til canceled order (for 60 days) so that the client will eventually get all the shares she bought for the price she wants.

Item 9 – Disciplinary Information

Neither Virginia King, nor v. h. King Associates, nor any of its associated personnel have ever been subject to legal or disciplinary events that are material to a client's – or to a prospective client's – evaluation of our advisory business, or of the integrity of our management.

Item 10 – Other Financial Industry Activities and Affiliations

Neither Virginia King nor any other person associated with v. h. King Associates is affiliated with – or has any material relationship with – a broker-dealer, or any other financial industry entity; and thus, no material conflicts of interest to report.

We have never received any compensation – direct or indirect – for any referrals to other financial planners or investment advisers.

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

A. The essence of all financial and monetary transactions is trust. The value we place on a commodity, a security, a house, or a dollar is a function of our confidence in the people or institutions that give those things value, whether an Exchange, a Credit Rating Agency, an Appraiser, or the Federal Reserve.

Trust in the character and integrity of the people managing our personal financial assets has become even more critical in the wake of the financial collapse of 2008. The Bernie Madoff swindle ruined the financial lives of thousands around the world, and stunned as well as outraged the rest of us.

The only value an investment adviser such as v.h. King Associates truly possesses is its reputation for unfailing trustworthiness and integrity. Ethical behavior toward clients and all their financial matters was a founding principle of v.h. King Associates a quarter century ago, and it remains just as fundamental today. Therefore, we expect all employees and associates to conduct themselves according to our ethical philosophy, without even the appearance of impropriety.

We have therefore established a Code of Ethics based on the guiding principle that, as fiduciaries, we must serve the interests of our advisory clients ahead of our own. In keeping with an adviser's fiduciary obligations, we must:

- show loyalty to the client;
- safeguard a client's information and confidences;
- provide reasonable, suitable, independent advice to clients; and
- refrain from personal transactions inconsistent with client interests.

A complete Code of Ethics is available to clients upon request.

B. We do not buy or sell for client accounts any securities in which we – or any related person – have a material financial interest.

C. Virginia trades for the Employee and Family Account the same funds she offers to clients. Occasionally, she may purchase funds for her own account that she does not yet offer to clients, so that she can easily track their performance. She adheres strictly to the trading practices she has developed to avoid any conflict of interest between her and her clients. (See Item 8 and Item 13)

D. Virginia reviews all client portfolios on a pre-determined monthly schedule. (See Item 13 below) She reviews and trades for the Employee and Family Account (which includes her own, family member, and staff portfolios) on the 2nd of each month. All other dates are reserved for clients only. Virginia ensures that clients' transactions are executed in accordance with all applicable FINRA, SEC, and state requirements.

Item 12 – Brokerage Practices

v.h. King Associates has chosen Charles Schwab & Co., Inc. to be its exclusive broker-dealer and custodian of client assets, which must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We require that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. (We are independently owned and operated and are not affiliated with Schwab.)

How We Selected Schwab to be Broker and Custodian

When looking for a broker-dealer, we considered a wide range of factors, including, among others, our history with Schwab. Initially, back in the mid-1990s, when Virginia was a registered representative of several different broker-dealers, she nonetheless used Schwab as custodian for all client assets. In 2001, she decided the Firm should become an unaffiliated, independent Registered Investment Adviser, and elected to designate Schwab her broker-dealer as well.

Why Charles Schwab? Schwab originated the concept of the Mutual Fund Market place in 1984, and then vastly expanded it in 1992 with the no-transaction fee Mutual Fund OneSource[®] service. And even though Schwab began business as a discount broker, by the time we went independent, it was the foremost reputable broker-dealer serving the independent investment adviser community. The majority of independent RIAs chose Schwab then; and now, almost 20 years later – notwithstanding the emergence of Fidelity and TD Ameritrade – Schwab still holds a formidable market share. (According www.aboutschwab.com, it is a leading provider of custodial, operational and trading support for more than 6,000 independent RIAs.)

We would have never gone with Schwab just because of size, per se; however, the scope and diversity of their OneSource[®] market place held a fundamental appeal for Virginia and, in the end, proved decisive. Equally important, they made a specialty of the small Independent RIA, offering the most comprehensive services at that time for investment boutique operations such as ours. Additionally, they are local here in San Francisco, so taking advantage of various seminars and back office trainings they offered was easily done.

So – in addition to being a forward thinking leader for our sector of the financial industry, Schwab offered quality service in the following areas:

- Trade execution and asset custody services (without a separate fee for custody);
- Transfer of funds between accounts (i.e., wire transfers, check requests, bill payment, etc.);
- Scope of available investment products (abundant variety of funds, ETFs, etc.);
- Quality of services;
- Competitive pricing for those services (no-fee funds, low online trading fees, etc.);
- Reputation, financial strength, and stability;
- Prior service to us and our other clients;
- Availability of other products and services that benefit us, as discussed below
(See **Products and Services Available to Us from Schwab**);
- Availability of investment research and tools that assist us in making investment decisions.

Even as it has grown into a \$1.6 trillion behemoth, Schwab has maintained its interest in serving the small independent investment adviser, and has responded to the competition by becoming more agile and innovative. The Advisor Services division assigns us a service team small enough so that our back office is on a first name basis with all their representatives. We know the people who deal with our account; they are not faceless, and we are not a number. These relationships greatly enhance our ability to get client business done in an efficient and timely manner, whether it is processing paperwork, solving problems, or even correcting errors when they arise.

We are content with their approach to handling our needs. They have not rested on their market share. After almost two decades, the service is still satisfactory.

Client Brokerage and Custody Costs

Schwab does not charge our clients separately for custody services; it receives compensation by charging fees on trades that it executes – specifically, in our case, on trades of closed-end funds or ETFs.

Products and Services Available to Us from Schwab

The institutional trading and custody services that v. h. King Associates and our clients obtain from Schwab Advisor Services™ are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis – at no charge to them or their clients – so long as they maintain a total of at least \$10 million of their clients' assets in Schwab accounts. (Otherwise, Schwab may charge us a quarterly service fee of \$1,200.) These services are not contingent upon v. h. King Associates committing to Schwab any specific amount of business, assets in custody or trading commissions.

A. 1. Soft Dollar Arrangements and Conflicts of Interest

If we were to negotiate a deal with Charles Schwab whereby our clients paid above the going rate in commissions, in return for which, Schwab compensated us with discounts on goods and services to the equivalent amount, that amount would be “Soft Dollars”.

v.h. King Associates is independently owned and operated and not affiliated with Charles Schwab & Co. As we are unaffiliated, we do not receive – nor can we receive – commissions from Schwab.

v.h. King Associates is a fee-only adviser and does not participate in any “Soft Dollar” arrangements with Schwab. A fee-only financial advisor can only receive payment directly from the client; she never accepts commissions or compensation of any kind related to the securities she trades. Because our clients pay us, our interest is with **them**, **not** with the broker or the fund company; consequently, we do not find ourselves in a conflict of interest.

We trade exclusively through the Schwab Advisor Services™ division, selected for its personal service and no-fee mutual funds, rather than for research materials and investment products specific to Charles Schwab.

All that said, because we **have** appointed Schwab our qualified custodian for all client assets, we do, in fact, realize numerous benefits in return – including waiver of some customary fees – which we believe enhance our ability to serve our clients. Unlike traditional Soft Dollar arrangements, however, these benefits do not impact total portfolio return, as they are offered to us at no additional cost.

Our Interest in Schwab's Services

a. v. h. King Associates does not use client brokerage commissions (or markups or markdowns) to obtain research or other products or services. However, the services we do receive from Schwab benefit us because we do not have to produce or purchase them.

b. Therein lies a potential conflict of interest. The \$10 million minimum may give us an incentive to require our clients to maintain their accounts with Schwab, based more on **our** interest in receiving Schwab services (that benefit our business), rather than on **their** interest in receiving the best value in custody services, and in the most favorable execution of their transactions.

We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily influenced by the scope, quality, and price of Schwab's services (*See **How We Selected Schwab** above*) and not by Schwab's offerings that benefit only us (such as proprietary software, research materials and investment products specific to Schwab.)

We have over \$120 million in client assets under management; thus, we do not believe that requiring our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

c. As we are a fee-only adviser, and do not receive commissions for trades, we therefore do not cause clients to pay-up in return for Soft Dollar benefits (i.e., to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers.

d. The “non-Soft Dollar” products and services that Schwab makes available to us, benefit all of our clients' accounts, and are not allocated to any particular sub-groups of clients.

e. We did not acquire any products or services in return for client brokerage commissions (markups or markdowns) in our last fiscal year. During that same time period, v. h. King Associates did receive some of the following benefits in return for placing our clients' assets in custody with Schwab.

f. Schwab products & services that benefit v. h. King Associates and our clients

In addition to the aforementioned brokerage and custody, the services we receive include research, training, and access to mutual funds and other investments that are otherwise available only to institutional investors. Schwab Advisor Services™ also makes available to v.h. King Associates various products and services that benefit us, but may not benefit our clients' accounts. Some of these other products and services assist us in managing and administering those accounts. These products include software and other technology that:

- Provide access to client account data
(such as duplicate trade confirmations and account statements);
- Facilitate trade execution and allocate aggregated trade orders
for multiple client accounts;
- Provide pricing and other market data;
- Facilitate payment of our fees from our clients' accounts;
- Assist with back-office functions, recordkeeping, and client reporting.

We are connected via the internet to the Schwab Advisor Services™ website, which lets us access client portfolios held at Schwab, view real-time quotes (delayed) and execute trades. Additionally, Virginia, Alison and the staff use the site to:

- view reports that Schwab generates for clients;
- receive real-time alerts pertaining to actions in client accounts;
- get updates of Schwab procedures, SEC compliance policies or
IRS tax matters;
- access a variety of other professional resources.

Secure entry to the website is assured through the required use of the Schwab Authentication card.

In addition to its web site, Schwab Advisor Services™ provides our office with SchwabLink, a desktop application that permits daily download of portfolio and transaction data (previous day's prices) into our client management software. Schwab sends trade confirmations and monthly account statements both to us and to our clients.

Schwab does provide discounts on some investment products (such as portfolio management software and financial industry publications) that might be purchased by us. (e.g., Last year, Schwab credited v. h. King Associates \$2,300 toward the annual maintenance fee for our PortfolioCenter® software.). PortfolioCenter® is made by SPT (Schwab Performance Technologies®), a Charles Schwab affiliate.

Schwab assigns an individual specialist dedicated to handling our needs as investment advisers and those of our clients. We believe such services benefit both v.h. King Associates and our clients.

Services That Generally Benefit Only Us

Schwab Institutional may also provide us with other services intended to help us manage and further develop our business. These services might include:

- consulting;
- publications and presentations on practice management;
- information technology;
- business succession;
- regulatory compliance, and
- marketing.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab provides a periodic forum where we can meet and discuss investments and other related issues with other investment professionals.

Clients are under no obligation to purchase securities through Virginia King, or through Charles Schwab. More than 99% of the assets managed by v.h. King Associates are held at Schwab, while the remainder is invested in instruments held outside Schwab.

A. 2. Brokerage for Client Referrals

Until February 2011, Virginia had accepted no new clients since 2004. Following Alison Davies' joining v. h. King Associates in February 2011, we began again taking new clients. All referrals are by word-of-mouth, through existing clients. We do not pay any party for referrals. Referrals and referral practices had no bearing on our selection of Charles Schwab as broker-dealer.

No client transactions have ever been directed to a particular broker-dealer in return for client referrals.

A. 3. Directed Brokerage

We do not recommend, request or require that a client direct brokerage.

B. Aggregated Trades

By and large, we do not aggregate the purchase or sale of securities, because the fair and equitable Trading Policy (*See* Item 8 above) of monitoring and balancing client portfolios, each on their own special day, is incompatible with aggregated trades. As a result, it follows that we generally do not have the opportunity to aggregate trades. There is an exception: if – because of a fund policy change – Virginia wants to clear all client positions in that fund, she might aggregate all those trades on one day.

Item 13 – Review of Accounts

A. Trading Schedule – v. h. King Associates has adopted the following policies to meet our fiduciary responsibilities and to ensure that our portfolio review and trading practices are fair to all clients, and that no one client or account is advantaged over any other.

1. Virginia King assigns each new client a day-of-the-month, usually within two months of signing the contract. This date (for example: July 24th) serves as the client's Annual Review date. It is also the day of the month that Virginia reviews that client's portfolio and makes trades.
2. Virginia trades for clients according to this set schedule regardless of market movements. She reviews and trades for the Family Account (which includes her own, family member, and staff portfolios) on the 2nd of each month. All other dates are reserved for clients.
3. Although Virginia places trades for a client only on that client's specified trading day, she has already determined a buy or sell price based on her trading procedure (*See below.*) If a fund is not trading that day at the price she wants, she puts in a Good-Til-Cancelled (GTC) order – good for sixty days, well beyond the next monthly review – so that the client's portfolio performance is not diminished by market swings of any one particular day.
4. That DAY-of-the-month is the day EACH month that Virginia reviews and evaluates a client's portfolio positions (the aforementioned example: July 24th).
5. She makes additional purchases on condition that the current price is at least 10% less than the cost basis. (NB. to minimize fees, she trades open-end funds monthly; and closed-end and ETFs quarterly.)
6. She takes profits to the extent they represent a 15% annualized return. Profit taking is done on a discretionary basis, and is repeated until the original cost basis has been withdrawn.
7. Periodically – but always on that same day of the month (unless a client has requested a specific trade) – she makes new investments or sells current positions for a variety of reasons. These include:
 - buying new funds when held (or previously held) funds close to new money, forcing her to exchange one fund for another that accepts new investors; and
 - maintaining a diversified asset allocation.

In general, Virginia does not purchase a new issue for a client portfolio unless it is trading at least 25% below its highest price for the previous three years.

B. Monitoring – Virginia King reviews all accounts on a monthly basis (*See A.1. above.*)

C. Reports – A quarterly report, together with a quarterly bill, is prepared and emailed (or mailed) to all clients every three months including his or her Annual Review date (in the above example: on October 24th, January 24th, April 24th and July 24th).

The staff prepares quarterly reports in Centerpiece software; and they run an additional report using alternate client database software. The second report provides an internal check against any possible errors, and is for office use. Staff must reconcile all discrepancies – and both reports must match – before a quarterly report can be issued.

While the staff prepares all reports, Virginia reviews them herself to confirm their accuracy and to make decisions regarding future trades. At the same time, staff prepares a billing statement, based on the value of the portfolio at the end of each client's quarter.

When clients attend their Annual Review, Virginia presents them with a Portfolio Performance Summary prepared using Centerpiece software. Staff compares each year's performance summary to a report prepared one year earlier in Centerpiece to verify there are no inconsistencies. Various other reports prepared in Centerpiece facilitate the Annual Review:

- The quarterly report;
- A sector report;
- A portfolio allocation pie chart; and
- A net worth statement – updated annually – based on the last quarterly report, and on information provided by the client for assets not managed by us.

Periodically, tax reports are prepared in Centerpiece for Virginia's use. We can send year-to-date tax reports to the accountants of those clients who have requested quarterly tax reports in June, September and January.

At the end of January, all clients receive year-end capital gains reports from v.h. King Associates; a duplicate may be sent to their accountants upon request. And each February, Charles Schwab – in addition to its periodic trade confirmations and regular monthly statements – sends clients a Form 1099 detailing interest, capital gains distributions, dividends and proceeds from sales.

Item 14 – Client Referrals and Other Compensation

No third party – person or corporation – provides any economic benefit or incentive to us for providing investment advice to clients. With the exceptions noted above in Item 12, we are compensated for our work only by our clients, who receive our undivided, unconflicted fiduciary attention.

v. h. King Associates does not solicit – nor does it pay any person or company for – client referrals.

Item 15 - Custody

Charles Schwab & Co., Inc. is the qualified custodian for all client assets – cash, or securities – which Schwab maintains in separate accounts for each client under that client's name. The exception: certain legacy partnerships and annuities are held outside of Schwab.

v. h. King Associates has custody only to the extent that – as stated above in Item 5. B. – Schwab deducts advisory fees from a client's account every quarter.*

Clients receive monthly statements generated by Schwab, which will show the total deducted for our management fee. In addition, they get quarterly reports from us (*See* Item 13, above). In every quarterly report, we include a notice strongly urging clients to compare our reports with Schwab's statements. Examining both reports is excellent insurance against either human or machine error. Clients should contact us with any questions about their reports.

* According to amended Rule 206(4)-2 of the Investment Advisers Act of 1940, we have custody of client funds and securities solely as a consequence of our authority to make withdrawals from client accounts to pay our advisory fees. Therefore, we are not required to obtain an independent audit of the client funds and securities maintained by our qualified custodian.

Item 16 – Investment Discretion

v.h. King Associates maintains a Limited Power of Attorney* granting us discretionary authority to manage securities accounts on behalf of our clients. This LPOA permits us to select securities and the amount of securities to be bought or sold without obtaining specific client consent prior to the execution of any individual transaction. We carry out these discretionary investment decisions during the monthly reviews described in Item 13, above.

Clients may place limitations on the kind and amount of securities that Virginia can sell, and they may request that she buy a particular fund. However, we do not encourage it.
(See Item 4. C. above.)

* The LPOA is part of the Schwab agreement every client signs to open an account. (See Item 4. E. above)

Item 17 – Voting Client Securities

Voting client securities is a service we offer.

Initially, after clients engage v. h. King Associates, they receive election information and proxies directly from the companies and funds in their portfolios. If a client wants us to vote their shares, we do that as a service for them. They can, at any time, contact the office to see how we voted; and they can also elect to receive their proxies once again. As we vote proxies on our clients' behalf, there is no conflict of interest between us and them.

A. Proxy Voting Policy of v. h. King Associates

Stockholders have the right to vote on important matters concerning corporate policies and governance. v. h. King Associates votes proxies in the best interest of its clients, congruent with socially responsible guidelines. The process for casting proxy votes is as follows: Virginia King takes sole responsibility to review all proxies as they are submitted. She votes proxies pursuant to the guidelines below, always maintaining the client's best economic interest as her prime consideration. We feel that when a company follows socially responsible guidelines, such decisions ultimately reflect positively on a company's bottom line, and thus on a client's portfolio value. Here is a broad outline of our Proxy Voting Policy.

A full, unabridged copy of the Guidelines is available upon request.

1. If a board committee selects more than 3 nominees and none of them are women, we will *oppose* the board's nominees.
2. We *support* shareholder resolutions asking corporations to refrain from contributing to initiative campaigns.

3. We *support* CERES (Coalition for Environmentally Responsible Economies) resolutions.

4. We will *support* shareholder socially responsible resolutions: examples include:

- Environmental accountability;
- Financial and social accountability in executive compensation;
- Glass ceiling reviews, and
- Requests for studies on impacts of development on culturally sensitive areas.

5. We will *support* resolutions that ask corporations with large numbers of shareholders to move their annual meetings around the country so that share-holders have an opportunity to participate in person.

Also, we will *support* resolutions asking directors to affirm the continuation of in-person annual meetings.

6. We *support* the principle of independent auditors. Therefore, we will *oppose* the appointment of auditors where non-audit fees, such as consulting fees, represent more than 50% of the total fees paid to the auditor, where such data is available.

7. We *oppose* bylaws requiring cumulative voting (because it violates the principles of fairness and equity by granting minority shareholders a disproportionate voice in running the company).

8. We *support* reasonable compensation packages for managers and directors.

In general, we do **not** regard as reasonable:

- Restricted stock incentive plans,
- Pension plans for outside directors,
- Gold or silver parachute plans triggered by a takeover,
- Annual compensation to outside directors exceeding \$100,000,
- Annual compensation for top management exceeding \$5,000,000.

9. We will *support* resolutions limiting stock options granted:

- to a single individual – to no more than 5% of the total options granted in a single year; and
- to the group of executive officers – to no more than 10% of the total options granted in a single year.

We will *support* resolutions mandating performance-based stock options for executives.

These include:

- indexed stock options,
- premium-priced stock options, and
- performance-vesting options.

10. We *oppose* mergers with companies with parameters that fail to meet our criteria, and we oppose mergers with a two-tier tender offer. We will *oppose* all-inclusive resolutions since they are both impractical and entail an unnecessary expense.

11. We *oppose* Employee Stock Ownership plans (ESOPs) **unless** they are designed to promote active employee ownership (versus a way to park stock to avoid a takeover). Thus, we support worker involvement/ownership through stock options available to a **majority** of employees.

Item 18 – Financial Information

As we do not require or solicit prepayment of any amount; and, as we only have custody of client assets insofar as we may direct Schwab, as qualified custodian, to deduct our quarterly fee from client accounts; and, as there is no financial condition likely to impair our ability to meet contractual commitments to our clients; therefore, we have not attached a balance sheet.

We have never been the subject of a bankruptcy petition

Additional Information – Privacy & Trade Error Policies

Privacy Policy

v. h. King Associates is committed to safeguarding the confidential information of our clients. Indeed, we require specific client permission before we will discuss their affairs with anyone outside our office. Our policy with respect to personal information is as follows:

- We limit access to information only to those employees who have a professional reason for knowing it, and only to nonaffiliated parties, as permitted or required by law.
- We maintain a secure physical office, and our computer network is protected to ensure that client information is not placed at unreasonable risk.
- For unaffiliated third parties that require access to a client's personal information (such as a brokerage firm), we also require strict confidentiality in our agreements with them.
- We do not provide our clients' personally identifiable information to mailing list vendors.
- We will maintain client files for as long as they remain clients, and for as long thereafter as may be required by law. Afterwards, all such information will be appropriately destroyed.

Trade Error Policy

In the event any error occurs in the handling of any client transactions, our policy is to identify and correct any errors as quickly as possible without disadvantaging the client or benefiting v.h. King Associates in any way.

We monitor and reconcile all trading activity daily, identify and resolve any trade errors promptly, document each trade error with appropriate supervisory approval, and maintain a trade error file.

If v. h. King Associates is responsible for the error, then Charles Schwab will invoice us for any trade errors that incur a market loss of \$100 or greater. If Schwab assumes responsibility, they will correct the error at no cost to us or to our clients.