

Part 2A of Form ADV: *Firm Brochure*

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This brochure provides information about the qualifications and business practices of Parker Carlson & Johnson, Inc.. If you have any questions about the contents of this brochure, please contact us at 937-223-0600. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Parker Carlson & Johnson, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 105815.

Item 2 Material Changes

This Firm Brochure, dated March 31, 2012, provides you with a summary of Parker Carlson & Johnson, Inc.'s advisory services and fees, professionals, certain business practices and policies, as well as actual or potential conflicts of interest, among other things. This Item is used to provide our clients with a summary of new and/or updated information; we will inform of the revision(s) based on the nature of the information as follows.

1. Annual Update: We are required to update certain information at least annually, within 90 days of our firm's fiscal year end (FYE) of December 31. We will provide you with either a summary of the revised information with an offer to deliver the full revised Brochure within 120 days of our FYE or we will provide you with our revised Brochure that will include a summary of those changes in this Item.
2. Material Changes: Should a material change in our operations occur, depending on its nature we will promptly communicate this change to clients (and it will be summarized in this Item). "Material changes" requiring prompt notification will include changes of ownership or control; location; disciplinary proceedings; significant changes to our advisory services or advisory affiliates – any information that is critical to a client's full understanding of who we are, how to find us, and how we do business.

The following summarizes new or revised disclosures based on information previously provided in our Firm Brochure dated March 31, 2011:

There have been no material changes to our Firm Brochure.

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Item 4 Advisory Business

Parker Carlson & Johnson, Inc. is a SEC-registered investment adviser (RIA). Our principal place of business is Dayton, Ohio. We've been serving families and organizations, such as corporations, endowments and foundations, since 1982. Registering with the Securities and Exchange Commission (SEC) does not imply that we've demonstrated any specific level of skill or training. It means we agree to abide by their rules and regulations and must adhere to one of the highest ethical standards within the investment industry, that being to place the interests of our clients first. The interests of our clients must be placed above those of the business and those of any employee, shareholder or any other stakeholder of the firm. In addition, all clients must be treated fairly, and all conflicts of interest must be disclosed, including the policies and procedures adopted to manage them. The required information is presented in this Firm Brochure.

The firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company) are Kathleen A. Carlson, CFA, President and James M. Johnson, CFA, Chief Investment Officer. Sandra K. Pierce, CPA, CFP, Vice President of Wealth Management and Amy E. Barker, CFA, CFP, Vice President of Portfolio Management also have significant operating responsibilities. Together the four partners comprise the firm's Investment Strategy Committee and all serve as the portfolio manager and primary point of contact for their respective clients (Relationship Manager).

Parker Carlson & Johnson, Inc. provides both investment management services on a fully discretionary basis and non-discretionary advisory services. As of 12/31/2011, we managed \$196,018,035 of clients' assets on a discretionary basis and advised \$28,113,969 of retirement plan assets.

INVESTMENT MANAGEMENT SERVICES INDIVIDUAL ACCOUNT PORTFOLIO MANAGEMENT

The investment management services Parker Carlson & Johnson, Inc. provides to individuals and organizations, while broad and diversified in one sense, are narrow in another. We build broadly, diversified portfolios primarily composed of stocks and bonds. The portfolios are designed to meet a range of investment objectives we define as aggressive growth to preservation. At the outset of a client relationship, we establish the investment objectives we hope to achieve. These are defined in an Investment Policy Statement for the account and developed through a series of discussions covering time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

The differences between the investment objectives are predominantly defined by the asset allocation employed. To a lesser extent, they may also be defined by the securities selected – conservative portfolios may contain more income-producing securities and aggressive portfolios may contain more opportunistic stock ideas and higher-risk bonds.

Most of our portfolios are managed on a fully discretionary basis, meaning we implement all buy and sell decisions without seeking our clients' approval. The Investment Policy Statement serves as the guiding instrument for all decisions. Transactions are executed through unaffiliated brokers and settled by unaffiliated custodians. As a safety measure, clients receive statements and confirmations from their respective custodians, in addition to the reports they received from us. Even though our clients give us full discretion for the management of their assets, they may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors. For example, we may have clients that do not want us to: 1) buy any healthcare stocks, or 2) sell any of their JP Morgan stock.

Our job is to understand the goals and objectives for our clients' assets and develop a strategy for meeting them. Tactically this means evaluating and actively managing a portfolio of investments. They entrust us with their assets and their peace of mind. These responsibilities require us to take great care in implementing our investment strategies and communication protocols.

INVESTMENT MANAGEMENT SERVICES

WEALTH MANAGEMENT

Investment Management serves as the core of our day-to-day relationship with our clients, and generally the basis for our fee. However, given the time we spend assessing the overall needs and goals of our clients and the relationships we develop as we serve those needs, we are in a unique position to provide more than just advice on investments. Our Wealth Management program seeks to identify and resolve areas of concern our clients may be facing in their overall financial picture.

The Relationship Managers at Parker Carlson & Johnson stand ready to provide advice and analyses on a number of financial planning topics. With the approval of our clients, we draw on the expertise of their other financial advisers to develop comprehensive recommendations. Some of the financial planning topics include:

Estate Planning

- Evaluate current wealth transfer strategies and implementation documents
- Review account titling and beneficiary designations for consistency with goals and attorney's instructions
- Diagram flow of assets under current estate documentation
- Accompany clients in estate planning meetings with their attorney

Tax Advice

- Evaluate tax reduction strategies
- Review use of tax-free and tax-deferred opportunities
- Suggest new or additional qualified retirement plans
- Develop execution strategies for executive stock options programs

Life Insurance Coverage

- Evaluate life insurance needs in light of current coverage
- Review payment options for whole life policies
- Develop strategies for split dollar life insurance

Long Term Care Needs

- Discuss goals, concerns and family health history
- Consider role of insurance in context of asset levels and goals
- If appropriate, work with client's insurance agent to review policies

Charitable or Family Gifting

- Discuss goals
- Evaluate strategies
- Recommend implementation programs

INVESTMENT MANAGEMENT SERVICES

MUTUAL FUND PORTFOLIO MANAGEMENT

Parker Carlson & Johnson, Inc. is the investment manager for the PC&J Performance Fund and PC&J Preservation Fund (the "Mutual Funds"), mutual funds registered under the Investment Company Act of 1940. The mutual fund portfolios follow similar investment strategies and hold many of the same securities as our other fully-discretionary portfolios.

Interested investors should refer to the Mutual Funds' prospectuses and Statements of Additional Information ("SAI") for important information regarding objectives, investments, time-horizon, risks, fees, and additional disclosures. These documents are available by calling toll free (888) 223-0600 or from the Funds' documents filed with the Securities and

Exchange Commission ("SEC") on the SEC's website at www.sec.gov.

Prior to making any investment in the funds, investors and prospective investors should carefully review these documents for a comprehensive understanding of the terms and conditions applicable for investment in the Mutual Funds.

INVESTMENT ADVISORY SERVICES

SMARTSTAGES 401(K) RETIREMENT PLAN SOLUTION

Parker Carlson & Johnson has been selecting investments and working with individuals for 30 years. Our SmartStages 401(k) Retirement Plan Solution draws on these skill sets to select the investment options and provides the education and support to help the plan sponsors and participants get the most out of their 401(k) retirement programs. We partner with other service providers like plan administrators, custodians and web-based recordkeepers to offer a total 401(k) management solution.

We not only recommend the investment options, but we will monitor and suggest changes as performance and the market environment dictates. We also use our knowledge of building diversified portfolios to meet a range of investment needs and temperaments to recommend SmartStages portfolio allocations to help the less investment-oriented participant make these important decisions.

The selection criteria and management philosophy we use in managing our investment management portfolios is used to select the open-ended mutual fund investment options we recommend in our SmartStages 401(k) program. Our SmartStages 401(k) Recommended Portfolio Allocations also incorporate the strategy recommendations of our Investment Strategy Committee.

Item 5 Fees and Compensation

INVESTMENT MANAGEMENT SERVICES INDIVIDUAL ACCOUNT PORTFOLIO MANAGEMENT FEES

Our fee schedule is set for full discretion accounts where we make all buy and sell decisions. We aggregate the balances in a family relationship and apply the asset-level breakpoints. We bill our clients after services have been rendered and, with their written permission, deduct them from their custodial account. Our fee schedule may vary from the one presented based on the extent of services required to meet our client's objectives.

Standard Asset-Based Investment Management Annual Fee Schedule¹:

<u>Asset Levels</u>	<u>Marginal Rate²</u>
Of less than \$500,000	1.25%
On the next \$1,000,000	1.00%
On the next \$1,500,000	0.70%
That exceed \$3,000,000	0.40%

¹ Parker Carlson & Johnson Inc.'s management fee is assessed on all of the supervised assets in an account including investments in non-affiliated mutual funds, closed-end funds and ETFs. These are pooled vehicles that pay fees for the management of the assets and operations of the pool, i.e., mutual fund management fees. The fees are paid by the pools and are in addition to the management fee the client pays for the services of Parker Carlson & Johnson, Inc.

² Subject to a minimum fee based on the number and size of the accounts.

INVESTMENT MANAGEMENT SERVICES WEALTH MANAGEMENT

For clients who desire a more comprehensive service, subject to an annual surcharge, we include them in our Wealth Management Program, which combines our investment advisory service with the development and implementation of a complete financial plan. The components of a financial plan may include a retirement projection, an estate plan review, a college funding plan and an income tax analysis, among others. Through the process of developing a Wealth Management Plan, we may interface with the client's other advisors such as tax accountant or estate planning attorney.

Standard Asset-Based Financial Planning Annual Surcharge for Advisory Clients:

<u>Asset Levels³</u>	<u>Surcharge</u>
\$100,000 - \$200,000	\$2,000
\$200,001 - \$300,000	\$1,500
\$300,001 - \$400,000	\$1,200
\$400,001 - \$500,000	\$900
\$500,001 - \$600,000	\$600

³ For asset levels above \$600,000, the fee for financial planning services is included as part of the annual investment management fee.

Standard Flat-Rate Financial Planning Fee Schedule for Non-Advisory Clients:

While the vast majority of our clients where we provide ongoing financial planning services have an advisory relationship with us, we do have a few clients where we only provide ongoing planning services. We charge a flat rate, billed on a quarterly basis, for these services. The rate depends upon the complexity of the work and the professional expertise required in delivering it.

Standard Time-Based Financial Planning Fee Schedule for Non-Advisory Clients:

Although investment management is the core of our service structure, at times we are engaged to address a financial planning issue that may or may not result in an ongoing advisory relationship. We are happy to draw on our expertise to assist the individuals and families in need of some advice. We charge an hourly fee for these services.

Hourly charge: \$75 to \$250 per hour.

The hourly charge depends upon the complexity of the engagement and the professional expertise required in developing the plan. Parker Carlson & Johnson will develop an Engagement Letter that will include an estimate of the fees for the financial plan. If Parker Carlson & Johnson is subsequently hired to implement an investment management component, we will discount the first year's asset-based management fee by as much as 50% to offset the charge for the financial planning engagement.

INVESTMENT MANAGEMENT SERVICES MUTUAL FUND PORTFOLIO MANAGEMENT FEES

Parker Carlson & Johnson, Inc. charges an asset-based fee for this service. The fee arrangement, termination, and refund policies are described in the Mutual Funds' prospectuses and Statements of Additional Information ("SAI").

Investment management clients of our firm who also invest in our affiliated mutual funds, the PC&J Performance Fund and PC&J Preservation Fund, will pay only those fees charged to investors by the Mutual Funds, i.e., the value of the client's investment in the Mutual Funds is excluded from our quarterly portfolio management fee calculation.

INVESTMENT ADVISORY SERVICES SMARTSTAGES 401(K) ADVISORY FEES

The fees for our SmartStages 401(k) advisory clients are negotiated and typically contain a fixed and variable component. They are based on the demographics of the retirement plan like size of the plan, number and location of the plan's participants, frequency of interactions and attendance at formal meetings. Our fees are paid by the plan sponsor or plan participants. We do not accept any compensation from any service partners or mutual fund families.

GENERAL INFORMATION ON MANAGEMENT AND ADVISORY FEES

Security Valuations or Pricing: Because the fees for our advisory services are based on the value of our clients' assets, it is important to understand how the assets held in our clients' accounts are valued. Parker Carlson & Johnson, Inc. provides investment advisory services, while another financial institution provides the custodial service, i.e., holding the securities in an account registered in the name of the client. Charles Schwab (see Item 15 - Custody) is our custodian of choice, but if directed by our client, we will manage assets held by other financial institutions.

The custodian will price the securities using various pricing services resulting in a total value for the assets held in the account. We also prepare a set of records that include the securities held in the account and their current market prices. These duplicate records are used to: 1) provide real-time data on the positions owned and available cash for the active management process; 2) reconcile with the custodian records to verify that the account has recorded all principal and income transactions appropriately; 3) prepare performance reports for various time periods; and 4) value the account holdings to generate an invoice for our investment management services.

The pricing methodology for common stocks and other exchange-traded issues is straightforward. Daily we download the prices for all of the securities held in our clients' accounts at Schwab. We use these security prices regardless of whether Schwab is the custodian. If a client has a security that is not in an account at Schwab, we will download a price from an independent pricing service.

Fixed income securities are not traded over national exchanges and are, therefore, more difficult to value on a daily basis. We will use the same process as described above for our bond holdings when we believe such prices accurately reflect the fair market value of such securities. However, there are a number of securities with little trading activity where this methodology does not produce a value that reflects the most current market environment. In these cases we use a matrix methodology, a commonly used practice of basing the price of one security off the price action of another, more actively quoted security or benchmark.

There may be cases when we decide that the pricing sources do not accurately reflect current value, or that prices cannot be readily estimated using the matrix methodology. In these cases we will prepare a good faith estimate of the value. It is incumbent upon us to consider all appropriate factors relevant to the value of the securities for which market quotations are not readily available.

Because the sources for the security prices valued by us and by our clients' custodians are different, the account values may differ. The differences are generally insignificant and transparent to the client.

Compensation from Other Service Providers or from the Sale of Investment Products: Parker Carlson & Johnson, Inc. is a fee-based investment adviser, meaning all of our compensation comes from fees we charge our clients. We do not accept any compensation from any other service provider or from any investment product or broker.

Performance-Based Fees: Parker Carlson & Johnson, Inc. does not charge performance-based fees.

Termination of the Advisory Relationship: The Investment Management Agreement may be terminated at any time, by either party, by providing the other party with written notice. The client will be billed on a prorated basis for the management fees earned during the calendar quarter up to and including the date of termination.

Mutual Fund Fees: All fees paid to Parker Carlson & Johnson, Inc. for investment management services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the management services being provided.

Additional Fees and Expenses: In addition to our management fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

Grandfathering of Fees and Minimum Account Requirements: Pre-existing management clients are subject to Parker Carlson & Johnson, Inc.'s management fees in effect at the time the client entered into the management relationship. Therefore, our firm's fee arrangements will differ among clients.

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

PERFORMANCE-BASED FEES

Parker Carlson & Johnson, Inc. does not charge performance-based fees.

SIDE BY SIDE MANAGEMENT OF INDIVIDUAL MANAGEMENT AND MUTUAL FUND CLIENTS

The firm's investment strategy and investment ideas are developed through a collaborative process by the Investment Strategy Committee with various members taking responsibility for specific asset classes. The portfolio managers, who are also members of the Investment Strategy Committee and managers of advisory accounts, select the securities for the PC&J Performance and PC&J Preservation Funds. Where the Funds' investment objectives are similar to the objectives of our advisory clients, the same securities may be utilized.

Our trading practices must be such that all of our clients are treated fairly, advisory and investment company clients alike. As discussed above, security transactions are placed as part of a portfolio review process by the investment manager. Trade orders are placed and executed over time. Because having adequate liquidity is normally a factor considered in the security selection process, the size of our trade orders is generally not large enough to significantly change the price of a security where subsequent orders will be entered - thereby not impacting on the trades that might be placed for other clients at a later point in time. In the instance when an order is of a size where the manager would like some special handling, such as placing the trade with a broker known for their skill in "working" orders, we use our order blocking system to be sure everyone is treated fairly – trade orders placed through the same broker are aggregated, so that all accounts receive the same averaged price.

Item 7 Types of Clients

INVESTMENT & WEALTH MANAGEMENT CLIENTS

Our clients come in many shapes and sizes with unique time horizons and risk tolerances. Our job is to understand the goals they have for their financial resources and develop a strategy for meeting them. We manage assets for:

- Individuals/families who have retired
- Individuals/families who are still working with retirement on the horizon
- Individuals/families in the midst of their careers with retirement among several savings goals
- Pension and other trustee-directed retirement plans
- Endowments and Foundations for charitable organizations
- Corporations or other businesses not listed above
- Registered Investment Companies (mutual funds)

While we do not impose a minimum on the account balance for a management relationship, we will impose a minimum fee. We base the fee on the size and complexity of the relationship, especially if we include some of the services in our Wealth Management Program.

SMARTSTAGES 401(K) SOLUTION CLIENTS

Our SmartStages 401(k) Solution is appropriate for organizations that offer an employee-directed retirement plan. We work with both for profit and not-for-profit entities with an employee base from 2 to 1,000 employees. We again will impose a minimum advisory fee as opposed to require a minimum asset base.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

PORTFOLIO MANAGEMENT

Our portfolio strategy team consists of the firm's four relationship/portfolio managers. Together they develop an investment outlook and allocation strategy that is then translated into various investment focus lists like a stock mutual fund or individual stock portfolio. These portfolio focus lists form the basis for our investment management decisions at the account level. Client preferences, account size and its current holdings dictate whether the portfolio will be primarily composed of individual securities or pooled investments like mutual funds and ETFs.

We actively monitor the performance of our selections and portfolio allocations. When changes are warranted, we implement them across the account base that is tied to these strategies to ensure that all of our clients benefit from our best and most current thinking. However, each relationship manager has discretion to tailor a strategy to suit unique client circumstances. While blindly following a model would be easier to execute from an operations point of view, it would not be in the best interests of all of our clients.

Portfolio Management - Guiding Principles

- Stock portfolios will be broadly diversified – across economic sectors and size and value spectrum.
- The S&P 500 Index and the Russell 3000 Index, respectively, serve as the stock benchmarks for purposes of comparing relative portfolio weights for the Stock and Stock Mutual Fund Focus Lists.
- Foreign stocks or mutual funds and ETFs containing foreign stocks will be included if they are expected to perform as well or better than our domestic holdings.
- Stock portfolios will generally be managed to replicate the PCJ Stock Focus Lists. Deviations in weights and securities held are acceptable.
- Bond portfolios will be broadly diversified across issuing entities except when considering U.S. Government or Agency holdings and when the size of the portfolio makes diversification cost prohibitive.
- Bond portfolios are constructed not only to meet the income and stability requirements of the account, but also to meet its cash flow needs. As a result, we use the PCJ Bond Focus List as a guide in managing the individual client bond portfolios, but supplement it with the specific account's investment goals, objectives and investment restrictions. Total return, current income or a targeted need for cash are a few examples of specific investment goals that result in deviations from the Focus List.
- The Barclay's Government/Credit Index will serve as the bond benchmark.
- Deviations in the weights of some bond segments in relation to the benchmark are acceptable if portfolio size, account-specific investment goals and the specific risk characteristics of the segment are unattractive in the current investment environment.

Portfolio Management – Stock and Stock Mutual Fund Focus Lists

- Stock securities are selected for their relative attractiveness versus a comparable alternative and to provide exposure to an industry or sector.
- Our process for establishing industry and sector weights begins with the weights from the S&P 500 Index, which is used for the Stock Focus List, and the Russell 3000 Index, which is used for the Mutual Fund Focus List. Our focus lists are then created with a goal to overweight or underweight a given segment.

- Our segment weightings result from a two-pronged approach: a “top down” review of our expectations for the economy, including the sectors that should benefit and those that could struggle; and a “bottoms up” survey of the stocks that are exhibiting improving fundamentals and attracting investor interest. The bottoms up survey is used to confirm our macro views and as a screening tool for investment ideas. The macro view will also include a determination of various risks that will impact the financial markets.
- Once these items are reviewed, a decision about the appropriateness of each sector’s and security’s under/overweighting is made to ensure that the stock selection process, heavily influenced by our “bottoms up” work, results in a focus list that is adequately diversified and produces the relative exposures that are consistent with our macro outlook.
- An allocation to mid and small-capitalization stocks and foreign securities within individual portfolios will generally be made, using mutual funds or ETFs, to follow the sector weightings defined in the Mutual Fund Focus List.
- To arrive at a decision about current recommended weightings for the Mutual Fund Focus List, we rely more heavily on our “top down” macro review, recognizing that the size and value segmentation process is really a proxy of relative weights across industry sectors. For example, the growth sectors will generally have a higher weighting in the technology, healthcare and retail industries than the value sector. We will take a look at the resultant weights of the Stock Focus List and layer in the small/mid and foreign components that are consistent with our macro view.

Portfolio Management - Bond and Bond Mutual Fund Focus Lists

- Bond portfolios are constructed not only to meet the income and stability requirements of the account, but also to meet its cash flow needs. So, in addition to managing the bond portfolio to replicate a strategy defined by the PCJ Bond Focus List, securities are selected to meet specific investment goals and objectives, subject to any investment restrictions of the account. Total return, current income or a targeted need for cash are a few examples of specific investment goals.
- We employ a “top down” approach to identifying our recommended sector allocations and quality and maturity preferences that are specified in our PCJ Bond Focus List. Our expectations for the economy, level and direction of interest rates, and valuation levels in the bond market drive our decisions regarding the areas of focus in the selection process. Valuation considerations include spreads in the credit markets and our expectations about the industries and companies that will benefit or struggle according to our macro view of the economy.
- We use a tax-adjusted, total return approach in selecting our bond investments.

Portfolio Management - Circumstances that Result in Deviations from Focus List

The following is a list of some of the reasons why the securities held in an individually invested portfolio may differ from the current Focus Lists, and/or from other individually invested portfolios:

- Client risk tolerance – The percentage of stocks held in more aggressive names will differ between portfolios dependent on client risk tolerance.
- There are some clients who prefer an income or absolute return investment approach, who may hold few if any of the Focus List names.
- Portfolio size - Relatively smaller portfolios may not have sufficient dollars to purchase all Focus List recommended holdings.
- Turnover – Accounts very sensitive to capital gains (taxes) may not sell all holdings when model changes are made assuming the issue is still acceptable for retention.
- Cash needs may arise that may change investment plans or amounts available for investment when names are added to the list or issues are sold from the list.

- Unique circumstances of each client may restrict purchase of certain names and/or sectors and/or direct retention or purchase of off-list names.

SECURITY ANALYSIS

Parker Carlson & Johnson, Inc. is not affiliated with any investment “brand”. Therefore, investments are selected solely on their merits and the roles they will play in our clients' portfolios. While we are able to invest in a broad range of securities, our portfolios are predominantly composed of investment grade, highly-liquid, SEC-registered issues. Provided below is a list of the types of securities that may be used to develop our diversified portfolios and the methods of analysis we employ in selecting among them.

Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Securities investments are not guaranteed. Although we work hard to understand the risks of each of the investments and diversify holdings in a portfolio to mitigate the total account risk, our clients may lose money on their investments. Presented below are some of the risks inherent in each of the security types.

SECURITY TYPES - SECURITIES WITH STOCK MARKET-LIKE RISK/RETURN CHARACTERISTICS

- Stocks traded on an exchange and over-the-counter, including baskets of stocks like exchange-traded stock funds (ETFs)
- Open and Closed-end stock mutual funds
- Structured Notes sponsored by financial institutions where the return is tied to a stock benchmark

Security Analysis - Selection Process for Stocks

The stock selection process for the Focus List uses both a “bottoms up” and “top down” approach to identify possible purchase candidates. We use a variety of screening tools to identify stocks that exhibit the types of characteristics we’ve found produce strong, long-term gains. We will search for ideas within a particular industry segment, as well as screen for attractive candidates across the entire market spectrum. The characteristics we are looking for include both fundamental and technical aspects of security analysis

- **Attractive fundamental characteristics**, relating to the company’s operations, include:

- Positive and/or improving revenue growth
- High and/or improving pretax margins and return on equity
- Positive changes in earnings and revenue estimates
- Increasing institutional ownership
- Improving industry group rank, preferably in top 100 groups in the O'Neil universe

- **Attractive technical characteristics**, relating to the price action of the stock, include:

- Emerging from a sound technical-trading base formation preferably on volume exceeding 150% of the stock's average daily volume
- Up/Down volume in excess of 1.0
- Positive accumulation of shares in base formation
- Both relative strength and earnings rank preferably above 80

Security Analysis - Selection Process for Stock ETFs and Open and Closed End Mutual Funds

The stock selection process for the Focus List uses a “top down” approach to identify sectors requiring representation. We use the Morningstar database to screen for the characteristics we believe will identify mutual funds that will provide above-benchmark performance on a consistent basis. Below are some of the criteria we use in the screening process.

- **Market Segment** - Look at market capitalization, price/earnings ratios and price/book ratios over time to confirm classification and consistency with segment.
- **Industry Segment** - Look at the portfolio's weightings in particular industry segments to gain the desired exposure suggested by our investment strategy.
- **Year-Over-Year Performance** - Look for consistent performance relative to its asset segment. We like to see the fund outperform its benchmark in four out of five years. This also translates into returns that rank in the top quartile of their segment.
- **Management Tenure and Fund Family Reputation** - Look to see that the current manager or management team produced the investment record. We also lean towards firms that have developed a long-term track record for excellence in a particular valuation style or philosophy. Some fund companies that fit that description are: Vanguard, T. Rowe Price and American Funds.
- **Turnover Ratio** - Look for funds with a turnover ratio below 100 percent. A low turnover ratio indicates an ability to develop a long-term strategy that works over time.
- **Risk Measurements** - Look at three-year standard deviations and Sharpe Ratios across a market segment to locate funds with less volatile returns. We select funds with more consistent returns over some with higher returns. A positive Sharpe Ratio tells us the fund has earned a positive return for the risk it has employed.
- **Expense Ratios** - Look for low relative expense ratios, which reduce the drag on a fund's performance and improve returns over the long-term.

Security Analysis - Selection Process for Structured Notes Using a Stock Market Benchmark

A structured note is an unsecured, senior debt obligation of a sponsoring entity like JP Morgan, Wells Fargo or Deutsche Bank. Instead of a traditional fixed interest rate, where the return is defined by the rate, the return of a structured note is tied the return of some market benchmark like the S&P 500 stock index. By incorporating various tools available in the options market, like puts and calls, notes may be structured to shape a benchmark's return profile to meet various investment strategies. For example, the investor receives 1.5 times the return of the S&P 500 index subject to a cap on the return of 18% with 10% downside protection for an 18-month holding period. This structure reduces, but does not eliminate, the downside risk of investing in the stock market. The cap on the upside return pays for the downside protection. Criteria used to select them include:

- **Credit Profile of the Sponsor** - The note is subject to the credit risk of the underlying financial sponsor just like any other senior, unsecured debt security. We analyze the creditworthiness and industry positions of the sponsoring entities. We are

looking for leading financial firms that carry a Standard & Poors (or equivalent) credit rating of A or higher. We currently own structured notes sponsored by Deutsche Bank, JP Morgan and Wells Fargo.

- **Note Structure** - We select structures that meet specific portfolio strategies and investment objectives. For example, we purchased a note sponsored by Deutsche Bank where the return is tied to the EEM, an emerging markets stock index, during a period of time when the markets were strong. We wanted to add some emerging market exposure to our portfolios, expecting the strength to continue long-term. However, we were concerned about the near-term price risk. The note was structured so that our price point equaled the lowest closing price for the index during the first six months of the holding period.
- **Risk Profile** - Just like any other investment, the risk profile of the structure must be reasonable for the return expected and meet the portfolio parameters defined in our Investment Policy Statements.

Security Analysis - Risk Characteristics of Stock Market-Like Securities

- **Stock Risk** - Stocks (including ETFs) tend to be more volatile than other investment choices, oftentimes increasing or decreasing 25% or more in a one-year period. The stock price of a particular company might decrease in value in response to the company's activities and financial prospects or in response to general market and economic conditions.
- **Sector Risk** - Our portfolio strategy may lead a concentration of holdings in one or more sectors, like energy or financial services, either through individual holdings or pooled entities like ETFs. If a portfolio is overweighted in a sector, any negative development affecting that sector will have a greater impact on the portfolio than in one that is not overweighted in that sector.
- **Market Risk** - The value of a stock portfolio will generally rise or fall along with movements in the total stock market, irrespective of its composition. Our strategy of over-weighting and under-weighting stock market sectors in a portfolio may cause the value of it to rise or fall to a greater degree than a stock market benchmark.
- **Performance Risk** - The mutual fund or ETF was selected to fill a specific role or meet a specific strategy objective in the portfolio. While our investment thesis may have been correct, it is possible that the performance of the selected fund may fall short of its stated objective.
- **Small and Medium Capitalization Risk** - To the extent that our portfolio strategy calls for exposure to stocks of small and medium-sized companies, the portfolio may be subject to additional risks. The earnings and prospects of these companies are more volatile than larger companies. Small and medium-sized companies may experience higher failure rates than larger companies. The trading volume of securities of small and medium-sized companies is normally less than that of larger companies and, therefore, may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies. Small and medium-sized companies may have limited markets, product lines or financial resources and may lack management experience.
- **Structured Note Credit Risk** - The return of a structured note is tied to a specific stock market benchmark, making it subject to the same types of risks as discussed in the market, sector and capitalization section. A structured note is an unsecured, senior debt obligation of a sponsoring entity like JP Morgan, Wells Fargo or Deutsche Bank. Therefore, the note is subject to the credit risk of the underlying financial sponsor. Should the sponsoring entity experience financial difficulties, the price of the note might deviate from its targeted benchmark. Just like any other debt obligation, it is possible to experience a complete loss of principle should the firm cease operations.

SECURITIES WITH BOND MARKET-LIKE RISK/RETURN CHARACTERISTICS

- Foreign and domestic corporate debt securities, excluding commercial paper

- Bonds traded on an exchange, including baskets of bonds like ETFs
- Taxable and tax free municipal securities
- Foreign and domestic governmental securities
- Open and Closed-end mutual funds

Security Analysis - Selection Process for Bond Market-Like Securities

We take a two-pronged approach to selecting bonds for a portfolio: meet account objectives for income and cash flow, and implementation of our investment strategy embodied on our PCJ Bond Focus List. Below are some of the criteria we use in the selection process.

- **Cash flow Requirements** - Bonds are expected to provide income and principal stability to a portfolio. Oftentimes a bond is selected because its expected maturity date coincides with an expected cash distribution. This is sometimes referred to as liability matching.
- **Capital Preservation** - Recognizing that bond prices move inversely to interest rates, we select bonds we expect will perform the best relative to our expectations about the future direction of interest rates — shortening or lengthening average portfolio maturities to preserve capital or increase value. We are always open to analyzing new bond structures as a means to protect capital in times of rising interest rates.
- **Quality/Return Requirements** - We evaluate the creditworthiness of the entity and whether the return profile compensates investors for the risk they accept by investing in it. Our PCJ Bond Focus List may include a suggested allocation to some higher-risk securities, like bonds rated below the Standard & Poors BBB- investment grade threshold. For portfolios that can accept lower-rated bond issues, we'll invest in securities with a lower credit rating if we believe the return adequately compensates the holder. Although bonds with insurance protection offer some additional comfort on repayment expectations, we also impose the rating requirement on the underlying debtor.
- **Total Return Net-of-Taxes Focus** - We use expected yield to maturity in analyzing the attractiveness of a bond's price. We are willing to invest in premium and discount bonds, as oftentimes these bonds are priced to provide higher expected returns. We also consider the client's marginal tax bracket when selecting between taxable and tax-free investments.
- **Mutual Fund and ETF Criteria** - The PCJ Bond Focus List has suggested allocations to various market sectors. We use the Morningstar database to screen for the characteristics we believe will identify mutual funds that will provide above-benchmark performance on a consistent basis. The criteria is the same as what we use to identify attractive stock funds except the Segment Criteria are specific to the bond market, like quality, maturity and interest rate structure.

Security Analysis - Risk Characteristics of Bond Market-Like Securities

There are different types of risk. The principal risks described below are inherent in some or all of the bond securities we include in our clients' portfolios. We work to minimize the overall risk of the portfolio by investing in a diversified mix of investments, where some of the risks offset one another.

- **Credit Risk** - There is a risk that issuers and counterparties will not make payments on securities as contracted due to some financial impairment. As a result, the value of the investment will decline and could even result in the complete loss of principle.
- **Government Risk** - Not all U.S. government securities are backed by the full faith and credit of the U.S. government, and therefore the bondholder is again subject to the credit risk of the issuer.

- **Interest Rate and Bond Price Risk** - An increase in interest rates will generally cause the price of the bond to decline. Securities with longer maturities and fixed coupons, including preferred stock, have more bond price risk than those with shorter-term maturities or securities with a coupon rate that moves in tandem with interest rates. Bond prices move in the opposite direction from interest rate changes, and the price change is greater for bonds with longer maturities.
- **Reinvestment Risk** - If market interest rates fall significantly below the coupon rate of an obligation, it is likely the obligation would be called, leaving the bond holder with cash to invest. A called bond subjects the investor to reinvestment risk, the risk that the proceeds would be reinvested in another security with a lower interest rate.
- **Prepayment Risk** - Asset-backed securities are subject to the risk that borrowers will prepay their loans more quickly than originally expected if interest rates fall. This may force the holder to reinvest prepayment proceeds at lower yields.
- **Extension Risk** - An increase in interest rates on bonds that have call features (the right to retire the bond prior to its stated maturity) and mortgage-backed securities that allow principal prepayments, may cause the prices of these bonds to fall more than other securities with similar maturity dates. When interest rates rise, prepayment rates decline and bond issuers are less likely to exercise their rights to call their bonds, which subjects the bond to greater bond price risk because the bond's expected average life is extended.
- **Collateral Risk** - Asset-backed securities (securities with an asset serving as collateral for the indebtedness), such as a mortgage-backed bond, have collateral risk. It is the risk that the collateral backing the securities is not sufficient to meet the contractual payments should the issuer fail to meet its payment obligation.
- **Foreign Investment Risk** - Changes in foreign economies and political climates can negatively affect the value of the debt obligations issued by foreign entities. Other factors that can reduce the value of foreign investments include changes in currency rates of exchange, even when the security is denominated in U.S. dollars, reduced availability of information, different accounting standards, reduced liquidity, price volatility and possible difficulties in enforcing contracts.
- **Performance Risk** - The mutual fund or ETF was selected with a specific role or objective to meet in a portfolio. While our investment thesis may have been correct, it is possible that the performance of the selected fund may fall short of its stated objective.
- **Liquidity Risk** - Liquidity risk is the risk of requiring more than a five-business day period in which the investment can be liquidated at current market prices for cash, including investments in auction rate securities that cannot be put back to the issuer on demand within seven days.

SECURITIES PROVIDING EXPOSURE TO OTHER DIVERSIFIED STRATEGIES

- Open or Closed-end mutual funds and ETFs that provide exposure to other diversified asset classes like real estate, commodities, precious metals and various alternative trading strategies
- Structured Notes sponsored by financial institutions where the return is tied to one of the above-mentioned diversified strategies

We use the same rationale in and approach to selecting these types of securities as we use in our stock and bond investments - they fill a specific role in a portfolio. However, they are attractive because their risk/return characteristics differ from stock and bond investments. For example, if we believe rising inflation expectations may lead to rising interest rates, we might prefer to move some of a portfolio's bond allocation into real estate or commodities, investments expected to rise should our expectations come to pass.

They have many of the same risks as discussed above - Performance Risk, Structured Note Credit Risk and Liquidity Risk.

SECURITIES WITH HIGHER RISK AND LIQUIDITY CONSTRAINTS REQUIRING CLIENT APPROVAL

- Interests in partnerships investing in real estate, private equity or various trading strategies
- Private Placement offerings for private equity investments

In addition to advising clients in the public-market, financial asset classes of stocks, bonds and cash, including such pooled vehicles as open-end, closed-end and exchange-traded funds (ETFs), we recognize that there are attractive investment opportunities outside of our traditional stock and bond markets that are appropriate for some clients. The selection and management of the individual investments in these alternative asset classes is of such a specialized nature that we generally work with other management teams that have a demonstrated record of performance within their respective asset classes. For example, we've offered advice on a small number of alternative investments including private placements of debt and equity securities and limited partnerships of private equity or real estate investments.

These alternative investments have very different risk, return and liquidity profiles and are not appropriate for everyone. Where the opportunity is appropriate for our clients, we believe participation will add significant value to the risk/return profile of our client portfolios. Illiquidity is oftentimes a feature of these alternative investments, offering us little opportunity for ongoing management. In these instances, we believe it makes sense to structure the compensation in the form of a lump-sum advisory fee that approximates the management fee we would earn on the assets over an expected breakeven period. When recommending these alternative investments, Parker Carlson & Johnson, Inc. will prepare a disclosure document that identifies the risks, fee structure, ownership interests by our employees and any arrangements that might pose a conflict of interest.

Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Parker Carlson & Johnson, Inc. and our management personnel have never been the subject of any disciplinary actions, nor do we have any reportable events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

MUTUAL FUNDS

As previously disclosed in "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) of this brochure, Parker Carlson & Johnson, Inc. is the investment adviser to the PC&J Performance Fund and PC&J Preservation Fund, investment companies registered under the Investment Company Act of 1940. We are related to the Mutual Funds through common control. Some of the officers of Parker Carlson & Johnson, Inc. are also officers and trustees of the Mutual Funds. Please refer to these items for a detailed explanation of this relationship and important conflict of interest disclosures.

A portfolio manager may recommend investing all or a portion of a client's assets in the PC&J Performance Fund and the PC&J Preservation Fund. Parker Carlson & Johnson, Inc. receives compensation from the two funds for investment management advice. PC&J Service Corp., an affiliated company, receives compensation for other operational services. These relationships could lead to a potential conflict of interest. To insure the client's interests are protected, the portfolio manager develops a recommendation that in his/her judgment utilizes sound investment principles that will achieve our client's objectives. The manager will discuss this recommendation with the client prior to implementation to be sure the client is comfortable with the proposed investment program.

For example, use of the mutual funds would be desirable for qualified plans with frequent contributions or smaller accounts where adequate diversification is an issue. Use of individual securities utilizing custody services would be desirable for taxable accounts for better management of capital gains taxes.

Parker Carlson & Johnson will not charge fees for advisory client assets invested in affiliated mutual funds. The fee schedule of the affiliated mutual funds and for advisory clients is materially similar, minimizing the potential for a conflict of interest.

For additional information on the PC&J Performance Fund and PC&J Preservation Fund, the Fund Prospectuses and Statements of Additional Information are available by calling toll free 888-223-0600. Prospective investors should review these documents carefully before making any investment in the Mutual Funds.

PROCESSING OF LITIGATION CLAIMS OUTSOURCED TO CHICAGO CLEARING CORPORATION

From time-to-time, a security Parker Carlson & Johnson, Inc. purchased for our clients becomes the subject of a class action lawsuit, resulting in a monetary award payable to the parties in the class. We have engaged Chicago Clearing Corporation (CCC) to process the litigation claims on behalf of our clients unless they choose to OPT-OUT of the service.

In the post-Enron era, with the adoption of the regulation-expanding Sarbanes-Oxley legislation, the number of class action lawsuits purporting a violation of a U.S. securities law has escalated, while the possible damages have dropped. It is a practice within the industry for a litigating law firm to send out claim forms to all holders of the defendant security (over a certain time frame), regardless of whether the holder meets the class criteria. In recent times, it had been our experience that most holders were either not eligible to participate in the class or a settlement was never reached. In the rare instances when a settlement did occur, the amount was less than \$10 per claim and sometimes less than \$1. Weighing the cost of the time required to investigate and then to process a claim against the potential of a successful lawsuit and a meaningful award, we adopted what appeared to be the norm for our industry, our previous policy to not process litigation claims.

We believe hiring CCC to process all of our clients' litigation claims is a win-win for everyone. For a reasonable amount of administrative work on our part, we put a system in place where all claims are processed, thus insuring our clients receive their share of any award in which they are entitled. CCC's fees are based on the value of the awards received. For a firm of our size CCC withholds 20% of an award in payment for their services.

Chicago Clearing Corporation began in 1993 as Certificate Clearing Corporation to create a market for trading litigation certificates. Claimants that wanted their funds prior to an unknown distribution date could sell their rights for a discounted value. In 2006 CCC began processing litigation claims and at the time we began utilizing its services, CCC had over 450 clients including investment advisers, banks, brokerage firms and mutual fund companies.

CCC uses trade data supplied by us to determine eligibility for a class action claim. As safety measures, we sort the data by our internal account numbers, which cannot be used to gain access to any of our clients' balances. CCC files the claims under Parker Carlson & Johnson, Inc.'s tax identification number. If an account is eligible to receive an award, we provide CCC with the account name and custodial account number so the funds can be directly deposited. We do not need to provide CCC with any other client-specific information. All data is encrypted prior to delivery via a secure internet connection.

Clients may retain their right to pursue any or all of the litigation claims for which they may be entitled to an award by OPTING-OUT of using CCC to process them. We will provide clients wishing to OPT-OUT with a form that will document their instructions.

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

CODE OF ETHICS

All employees, as well as officers and directors of the applicant, must adhere to the Code of Ethics adopted by Parker Carlson & Johnson, Inc. Our Code's general principles of conduct include 1) placing the interest of the client first, and conducting transactions in such a manner as to avoid any conflict of interest or any abuse of an individual's position of trust and responsibility; 2) complying with Federal securities laws; and 3) maintaining client confidentiality. Various procedures are in place to control personal trading conflicts, including pre-clearance requirements, quarterly reporting of security transactions and annual reporting of holdings. A copy of the Code of Ethics is available to our clients and our prospective clients, without charge and upon request, by calling toll free 888-223-0600.

PARTICIPATION IN CLIENT TRANSACTIONS

It is Parker Carlson & Johnson, Inc.'s duty to put the interests of our clients first in the execution of all personal security transactions. While our investment professionals are allowed to invest in the same securities as those chosen for our advisory clients, including alternative investment ideas, we have a code of conduct, defined in our Code of Ethics, and trading procedures that are designed to manage this duty. We've found that our clients appreciate knowing we own some of the same investment ideas. They believe it demonstrates the confidence we have in our recommendations. In fact, brokerage relationships developed on behalf of our clients may provide our employees with personal investment opportunities that might not otherwise have been available to them.

Item 12 Brokerage Practices

Parker Carlson & Johnson, Inc. has a duty to treat all clients fairly and to seek to obtain best execution for all client transactions. We've adopted a series of policies and procedures to meet our obligations that are summarized below.

BEST EXECUTION PRACTICES

Parker Carlson & Johnson, Inc., as a matter of policy and practice, seeks to obtain best execution for client transactions, that is, execution of securities transactions for clients in such a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances. Best execution considers the circumstances of the full range and quality of broker-dealer's services, including execution capability, commission rates, the value of any research, financial responsibility and responsiveness, among other things.

We will generally place trades with brokers that are able and have agreed to meet the requirements of our best execution practices. While we may receive other services from our approved brokers such as access to research personnel or subscriptions to various research tools, they are still required to meet all of our best execution practices. These practices include:

- A willingness to accept and price orders according to agreed upon commission rates and acceptance of bunched orders with average pricing capabilities
- Timely access to their order entry system which includes trade personnel, phone system and Internet connection, if required
- Trades executed on a timely basis and at an expected prices for the size and time the order was placed
- Trade settlement capabilities that meet our needs and are timely and accurate to meet the requirements of our custodians

TRADING PRACTICES

We believe the trading procedures we've adopted are fair—no client is being advantaged at the expense of others or disadvantaged—to all our clients. We have testing procedures that measure the effectiveness of our practices and an ongoing compliance program that results in improvements where necessary.

As mentioned previously, the firm's investment strategy and investment ideas are developed through a collaborative process by the Investment Committee with various members taking responsibility for specific asset classes. Ideas are shared among the portfolio managers and implemented across our client portfolios, subject to the respective account objectives. Portfolio managers are responsible for all aspects of the service delivery process for an account, including incorporation of appropriate investment ideas into the account.

A trade order is created through the process of incorporating the investment idea or strategy into a portfolio. Because portfolios are invested at different times and have different objectives, they will contain different securities. Incorporating a new investment idea will prompt a portfolio review requiring some amount of time. Thus, new ideas will be implemented over a period of time. The review process results in the creation of a series of orders for the same or similar security. Trade orders for the same security may be entered on different days or even several times during the same day, as portfolio managers go about evaluating the appropriateness of the idea for their respective accounts.

Trade orders are prepared as part of the review session by the portfolio managers. These orders are given to the trade

specialist who then enters them with the appropriate broker. Orders for the same security at the same broker are aggregated and executed as a block trade. The execution price is the average price received for the entire block and allocated across the respective accounts. Later that same day or on another day, a similar series of trades may be created for a different series of accounts. The trade will be handled in the same manner but, of course, the prices received will be different.

We believe these differences are a necessary by-product of managing to the portfolio's objective in contrast to managing to a model. We believe our process gives our portfolio managers the flexibility they require to meet the investment objectives of our clients.

When the investment idea is of a particularly time-sensitive nature, such as the sale of a stock expected to react to some imminent news, it is implemented across all appropriate accounts in as timely a manner as possible. Again, trade orders placed through the same broker would be blocked with all accounts receiving the same averaged price.

Although the vast majority of the block trades are executed in their entirety, there are times when a broker cannot complete the entire transaction within the day. In these instances the broker is directed to allocate the executed portion on a percentage completion basis across all the accounts comprising the trade order.

Parker Carlson & Johnson, Inc. may adjust the allocation in order to save on commissions when the client is subject to minimum ticket charges or brokerage trade away fees. In these instances the client may either have their total order filled or may not have any of the order filled. The decision will be based on the client's relative need to have the investment decision executed. For example, a client that has a need for cash may have a sale order filled over one that has adequate cash in their account.

Clients who have directed us to trade with a specific broker will not be able to participate in block trades where we have the brokerage discretion and therefore will have different execution prices and commission rates.

ADVISER DIRECTED BROKERAGE

Parker Carlson & Johnson, Inc. has developed relationships with a number of brokerage firms who execute trades on behalf of our clients. These firms have been selected because of their ability to execute transactions in an effective manner for a broad range of securities. They may also provide the firm or our clients with additional services. These additional services include such things as access to research professionals, research information, or, on a client's behalf, consulting and/or custodial services.

Trade orders for securities purchased over an exchange that are less than 1,000 shares per account are placed through the account's custodial broker or Schwab, if the custodian is a bank. Orders that exceed 1,000 shares per account may be placed in the same manner or through a broker that provides us with research information. Even though the execution skills of the non-custodial brokers often produce lower transaction prices, the total trade order charges, which include commissions and settlement fees, will most likely be higher than if they were placed with the custodial broker.

Accounts large enough to require 1,000-share orders are also generally large enough to qualify for price breaks for their management fees. Whereas the typical order charge differential is 1% or less on the trade principal, the 20% to 30% management fee discount for asset levels above a breakpoint easily makes up for any increased trading charges.

Trade orders for securities that are not widely traded on an exchange, including most bond securities, will be placed with the broker that provided the research for the investment idea and may result in a trade away charge by the custodian.

Over time, as we gain confidence in the research capabilities of our brokers, and as they come to understand the types of investments that are of interest to us, we may be offered access to some unique investment opportunities. Such investment opportunities, like limited partnerships or equity private placements, may not be appropriate for all our clients. They may also

be purchased by some of the investment professionals of the firm.

CLIENT DIRECTED BROKERAGE

Clients may choose to custody their assets at brokerage firms that do not allow us to place trades with another broker. These relationships will result in differences in the cost, availability and timing of security transactions. Because these firms require us to use their trading procedures, we generally place trades for these accounts after trades have been placed with our preferred relationships. In most cases, the timing difference does not result in a significant difference in the price of the securities transacted over an exchange. The commission costs are typically higher, but these costs are used to compensate the broker for the value they provide to the client.

None of the trades in a directed brokerage arrangement can be used to pay for our soft-dollar research services, yet the clients derive a benefit from the service. Because this places the burden of covering some of our research costs on our larger, non-directed brokerage arrangements, we discourage establishing these types of relationships. We will allow them if the client-specific circumstances warrant the exception.

In addition to not being able to direct trades to our soft-dollar research sources, they will not be able to access any of our investment ideas that require the transaction to be placed directly with the research provider. This limitation reduces our discretion, and more importantly, the range of investments we have to meet the objectives of the account.

COMMISSION RATES

We negotiate the commission rates charged by the brokerage firms we select. The commission rates are typically \$0.06 per share or less, subject to minimum ticket charges. The minimum ticket charges vary across custodians and even across accounts at the same custodians, due to price breaks based on asset balances. Even though the negotiated commission rates may be higher than a \$.04 - \$.05 per share norm for our closest comparison (managers with an annual volume of client commissions of under \$5 million, our commissions average less than \$200,000), we believe they are reasonable for the access they provide to individual trading specialists or research services utilized by our Strategy Team.

In a client directed brokerage relationship, the client negotiates the commission rates with the firms they select. Generally, clients in directed brokerage accounts experience higher commission costs when compared to the commission costs for clients utilizing our negotiated rates.

SOFT DOLLARS

An investment adviser is allowed to direct trades to a broker in return for access to research or for a research-related product or service. The commissions charged by the broker pay for the research provided. These payments are known as soft dollar payments within the brokerage industry. Like our custodial adviser-directed brokers, brokers that provide us with research or with a research product or service must meet our best execution standards.

Generally speaking, the commission rates charged by brokers providing a research service are higher than what would be charged by brokers selected solely for the purpose of executing a trade. The ability to access research information is of substantial value to the investment decision-making process of Parker Carlson & Johnson, Inc. and is of benefit to all of our clients. Paying for research information in soft dollars reduces the adviser's cost of doing business and is an important factor in determining a reasonable investment management fee schedule. It is also a typical practice within the investment advisory industry.

We are not able to use the commission dollars to purchase research products for accounts that have chosen a client-directed

brokerage relationship; however, these clients will still benefit from the value of these products. In these instances the client has chosen to use his/her commission dollars to purchase a product or service for his/her sole benefit.

Examples of Research and Research-Related Products Acquired with Soft Dollars:

Service Purchased	Research Information Received
Telemet	In-depth fundamental and technical information on over 2,000 stocks, updated daily
Hays Advisory Group	Newsletter
The Street Com Online	Fundamental and technical research
Morningstar(Principia)	Performance and portfolio analysis information for mutual fund industry

Sometimes a research product or service has content that could also be helpful in the administration of our reporting and accounting processes. Because this is a non-research benefit, it must be paid for by the adviser, that is, paid with "hard" dollars. Currently, we do not subscribe to any such service. Should we do so in the future, we will disclose those services and the percentage of fees paid in hard and soft dollars.

Research and Research-Related Products with a Non-Research Benefit:

None.

CROSSING TRADES IN ADVISORY ACCOUNTS

At times a need for cash or an estate distribution requires a security to be sold to create the needed liquidity. If it is a security, such as a bond, that does not trade on an exchange AND another client is in need of a similar security, we will cross the trade between the two accounts. Both parties to the transaction will receive a little better price, because we eliminate the commission markup that compensates a broker for handling a trade.

We follow a service protocol so that both parties to a cross-traded transaction are treated fairly and thus eliminate the potential for a conflict to exist in their interests. We begin a crossed-trade transaction by asking one of our brokerage relationships to process the transaction. The price will be established by the broker and Parker Carlson & Johnson Inc.'s Chief Compliance Officer. It is based on the transaction prices for similar securities trading on the same day. A differential or bid-ask spread is established that will cover the broker's minimum ticket charges and split between the two sides.

MINIMUM TICKET CHARGES AND TRADE AWAY FEES

Parker Carlson & Johnson, Inc. will make a recommendation regarding custody services. In a number of instances we have recommended the Schwab Institutional division of Charles Schwab & Co. ("Schwab") because of their ability to execute trades effectively, at reasonable rates, offer a wide range of investment options and allow us to execute trades with other brokers. In addition Charles Schwab has developed tools to make communication with us more efficient, reducing one aspect of account administration. See "Custodian" below for additional services provided by Schwab.

We believe the fees charged by Schwab, a discount broker, are very competitive for the services it provides. Schwab is being paid for its custodial and trade execution services, not for providing investment advice. It does have a minimum ticket charge that is based on the size of the account. And, while Schwab allows us to place trades with another broker, it will charge a fee to settle the trade. We will choose to place a trade away from Schwab for a variety of reasons: 1) the security can only be

purchased or sold through the sponsoring broker; 2) the trade is used to pay for research; or 3) the trade gives us the ability to execute the transaction at a lower price because another broker holds the security in its inventory.

Item 13 Review of Accounts

An investment management professional (relationship manager) of the firm manages the portfolio decisions and provides the account reviews. As one of our founding philosophies, we believe an individual with an in-depth understanding of portfolio management should personally serve our clients. Therefore, our relationship managers have the knowledge and experience needed to manage and review the portfolios. Our relationship managers are required to hold at least an undergraduate degree and either to have attained or to be working toward a Chartered Financial Analyst designation or other appropriate professional designation such as Certified Financial Planner. In addition, the relationship manager must have 10 years of investment experience and agree to abide by the Code of Ethics adopted by the firm.

Portfolios with similar objectives generally hold the same securities. This enables daily review of our account investments. In general, the allocation between asset categories is reviewed quarterly for each advisory account. External events that affect our market outlook or changes in investment objectives will trigger an allocation review.

The relationship managers are responsible for maintaining an ongoing understanding of each client's individual circumstances and, as objectives change, making the appropriate portfolio adjustments. These reviews must be documented on at least an annual basis.

The relationship managers are listed below:

- Kathleen A. Carlson, CFA - President and Treasurer
- James M. Johnson, CFA - Secretary and Chief Investment Officer
- Sandra K. Pierce, CPA, CFP - Vice President, Wealth Management
- Amy E. Barker, CFA, CFP - Vice President, Portfolio Management

CLIENT REPORTS

Clients receive reports from us and from their custodians. Our communications are designed to provide information about the financial markets and the performance of our clients' accounts. The reports prepared by custodians provide information about account transactions and investment holdings. On a monthly basis, we reconcile our account records with the records provided by our clients' custodians.

At a minimum, we provide our clients with quarterly performance statements and market reviews. The quarterly statement details additions and withdrawals on a year-to-date basis and the investment return over multiple time periods. Comparison investment performance data for the same time periods are provided for evaluation purposes. If eligible, a client may choose to receive monthly reports. The monthly statements show all or some of the following information: portfolio allocation and value, contributions and withdrawals, and portfolio holdings by sector. Clients may also choose, subject to their custodial relationships, to have their account information posted on our website, www.pcjinvest.com.

All clients receive a quarterly communication that discusses our market outlook and investment strategy. In addition, clients, at their discretion, receive our monthly communication that discusses current issues affecting the financial markets. Both the quarterly and monthly communications are also available on our website. A major part of our communication program is done orally, either by telephone or in meetings.

Item 14 Client Referrals and Other Compensation

Over the years, we've developed relationships with several non-investment professionals with expertise that our clients draw upon, such as legal, tax and retirement plan administration. As a result, we've gained an understanding of their practice styles, core competencies and work ethics. When asked by our clients, we are very comfortable recommending a service provider we believe will meet their needs. We are not compensated in any way for these referrals, nor are the recommended professionals expected to refer business to us.

Just as we provide referrals when appropriate, we will also receive referrals from accountants, attorneys, retirement plan administrators and other service professionals in the Dayton region. While we are grateful for the referral, we do not compensate the referring party, nor is there any expectation that we will refer business to them at some later date.

We eliminate the potential for a conflict of interest, because we do not have any explicit or implicit cross referral relationships with any professional service firms. We place the needs and interests of our clients first in referring a service organization that we believe will meet their needs. We expect the firms that refer clients to us to do the same.

Item 15 Custody

Our firm does not have actual or constructive custody of client accounts. We work with custodians to provide our investment management services. Clients authorize us to place trades in and deduct our management fees from their custodial accounts. Because the custodians do not verify the accuracy of the management fee calculations, it is important for clients to carefully review their custodial statements. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians, we also send account statements. We've summarized our reporting procedures in Item 13. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

RECOMMENDATIONS FOR CUSTODY SERVICES

Parker Carlson & Johnson, Inc. may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts. Parker Carlson & Johnson, Inc. is independently owned and operated and not affiliated with Schwab. Schwab provides our clients with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the adviser's clients' assets is maintained in accounts at Schwab and is not otherwise contingent upon committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our clients' accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available other products and services that benefit us but may not directly benefit our clients' accounts. Some of these other products and services assist us in managing and administering clients' accounts. These include software and other technology that: provide access to client account data, such as trade confirmations and account statements; facilitate trade execution and allocation of aggregated trade orders for multiple client accounts; provide research, pricing information and other market data; facilitate payment of our fees from our clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of our accounts, including accounts not maintained at Schwab.

Schwab also makes available other services intended to help us manage and further develop our business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to us by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of a third party providing these services to us.

Although the "other products and services" provided to us by Schwab are much appreciated and help us better serve our clients, our decision to recommend them for trading and custody services is based solely on the value we believe they offer our clients. Schwab's trading platform provides our clients with the broadest array of no-load mutual funds. In addition, Schwab will also settle trades placed through other brokers. This expands the investment opportunities our clients can access and allows us to better meet their account objectives.

Item 16 Investment Discretion

Our investment management services are provided on a fully discretionary basis, meaning we place trades in our clients' accounts without obtaining their permission. Trades are developed to implement our investment strategy decisions and are governed by the account's Investment Policy Statement. Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions. Examples of limitations include instructions:

- Not to sell a particular security like JP Morgan
- Not to purchase securities in a particular industry segment like tobacco or healthcare
- Not to purchase a debt security with a below investment grade credit rating or a final maturity date that exceeds 20 years

Item 17 Voting Client Securities

We do not vote proxies for the investments held in clients' accounts, with the exception of clients governed by the Employee Retirement Income Security Act of 1974 (ERISA). For the ERISA accounts, the following is our proxy voting policy.

We manage assets allocated to equities with one overriding goal: to provide capital appreciation to our clients. Inherent in achieving this goal is to buy equity securities of well-managed companies. These are companies that employ managers that have a demonstrated track record of aligning the interests of management with the interests of shareholders. For a company that demonstrates that it acts in the best interests of its shareholders, it becomes difficult for us to believe that we, as investment managers, know more about the company's business than the company's top management. Based upon that criterion, for all proxy issues, we will vote shares in our equity portfolios to follow management recommendations.

For each company in our portfolio, should we perceive that management is not acting in the best interest of shareholders, we would be inclined to sell the shares of that company. Included in that perception would be a management recommendation to vote for a proxy issue that we felt would materially harm the shareholders of the company. In trying to achieve capital appreciation in our equity assets, it would be hard for us to conceive of an instance whereby we would continue to own shares in a company where we believed that management recommendations on proxy issues would have a materially negative impact on the shareholders of the company. Therefore, we would simply sell those shares in our portfolios.

A copy of the above proxy voting policy is available to our clients, without charge and upon request, by calling toll free 888-223-0600. We will send a copy of the above proxy voting policy within three business days of receipt of a request by first-class mail or other means designed to ensure equally prompt delivery. The policy is also available on our website at <http://www.pcjinvest.com>. Click on FAQ.

In addition, we will provide each client, without charge and upon request, information regarding the proxy votes cast by us with regard to the client's securities held in ERISA accounts.

Item 18 Financial Information

We do not require or solicit payment of fees in advance of services rendered. Therefore, we are not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. Parker Carlson & Johnson, Inc. has no additional financial circumstances to report. In addition, we have not been the subject of a bankruptcy petition at any time, including the past ten years.