

## **Firm Brochure**

(Part 2A of Form ADV)

**Patten & Daves Capital Management**

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This brochure provides information about the qualifications and business practices of Patten & Daves Capital Management. If you have any questions about the contents of this brochure, please contact us at: 541-770-9494, or by email at: Mark@PattenandDavesCapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Additional information about Patten & Daves Capital Management is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

**03/08/2011**

## Material Changes

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### **Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 541-770-9494 or by email at: [mark@pattenanddavescapital.com](mailto:mark@pattenanddavescapital.com).

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# Advisory Business

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## Firm Description

Founded in 1993, Patten & Daves Capital Management is a fee based SEC registered investment advisory firm. We specialize in providing institutional style investment management services to individuals, retirement plans and endowments.

Value investing is the foundation of Patten & Daves Capital Management investment philosophy and process. All portfolios we manage abide by the same disciplined time tested value investment philosophy.

Patten & Daves Capital Management is strictly a fee-only investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

Our primary team consists of Mark Patten. Mark is a graduate of University of Southern California (1977), with a degree in finance. Previously Mark was a founder in one of the nation's premier equity income money managers in the country. The firm utilized a unique equity income investment approach, a system that is still in use to this day. Patten & Daves Capital Management has adopted many of these time tested investment principals, in order to create our high-quality high-yielding, dividend growth portfolios.

George W. Daves, Executive Vice President. George is a graduate of the University of Oregon (1987) with a degree in economics. George joined Patten & Daves Capital Management in 1993 and has over 16 years of investment experience.

Liane Empio, Vice President, operations. Liane has extensive experience in trust accounting and money management operations. She has been with Mark since 1985.

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## Principal Owners

Mark S. Patten is a 60.18% stockholder. Gary Moore is a 12.64% stockholder. George Wilkinson is a 12.64% stockholder.

## Assets Under management

As of 12/31/2012, PATTEN & DAVES CAPITAL MANAGEMENT manages approximately \$28,000,000 in assets for approximately 100 clients.

Approximately \$28,000,000 is managed on a discretionary basis, and \$0 is managed on a non-discretionary basis.

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**Tailored Relationships**

The goals and objectives for each client are documented in our client relationship management system. Investment programs are created that reflect the stated goals and objective. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

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**Types of Agreements**

The following agreements define the typical client relationships.

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**Advisory Service Agreement**

Most clients choose to have PATTEN & DAVES CAPITAL MANAGEMENT manage their assets in order to obtain ongoing in-depth investment advice. All aspects of the client's financial affairs are reviewed. Realistic and measurable goals are set and objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for an Advisory Service Agreement is provided to the client in writing prior to the start of the relationship. An Advisory Service Agreement includes; investment management (including performance reporting, retirement planning, as well as the implementation of recommendations within each area).

The Advisory Service Agreement fee is based on a percentage of the investable assets according to the following schedule:

1.00% on assets management

Although the Advisory Service Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. Portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

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**Asset Management**

Assets are invested primarily in no-load mutual funds, stocks, bonds and exchange-traded funds, usually through discount brokers or fund companies. Fund companies charge each fund shareholder an investment management

fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. Patten & Daves Capital Management does not receive any compensation, in any form, from either fund companies or brokerage firms.

Investments may also include: equities (stocks, corporate debt securities, municipal securities, and mutual funds shares), and U. S. government securities.

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**Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying Patten & Daves Capital Management in writing.

PATTEN & DAVES CAPITAL MANAGEMENT may terminate any of the aforementioned agreements at any time by notifying the client in writing.

## **Fees and Compensation**

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**Description**

Patten & Daves Capital Management bases its fees on a percentage of assets under management.

Fees are *NOT NEGOTIABLE*.

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**Fee Billing**

Investment management fees are billed quarterly. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

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**Other Fees**

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

PATTEN & DAVES CAPITAL MANAGEMENT, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).



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### **Expense Ratios**

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to PATTEN & DAVES CAPITAL MANAGEMENT.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

## **Performance-Based Fees**

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### **Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

PATTEN & DAVES CAPITAL MANAGEMENT does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Types of Clients**

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### **Description**

PATTEN & DAVES CAPITAL MANAGEMENT generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, or charitable organizations.

Client relationships vary in scope and length of service.

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### **Account Minimums**

The minimum account size is \$100,000 of assets under management, which equates to an annual fee of \$1,000.

PATTEN & DAVES CAPITAL MANAGEMENT has the discretion to waive the account minimum. Accounts of less than \$100,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$100,000 within a reasonable time. Other exceptions will apply to employees of PATTEN & DAVES CAPITAL MANAGEMENT and their relatives, or relatives of existing clients.

# Methods of Analysis, Investment Strategies and Risk of Loss

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## Methods of Analysis

Security analysis methods may include fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Other sources of information that PATTEN & DAVES CAPITAL MANAGEMENT may use include Morningstar Principia mutual fund information, Morningstar Principia stock information, Charles Schwab & Company's "SchwabLink" service, Advisor Intelligence, and the World Wide Web.

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## Investment Strategies

The primary investment strategy used on client accounts is strategic asset allocation utilizing a core and satellite approach. This means that we use passively-managed index and exchange-traded funds as the core investments, and then add actively-managed funds where there are greater opportunities to make a difference. Portfolios are globally diversified to control the risk associated with traditional markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time.

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## Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Code of Ethics**

The employees of PATTEN & DAVES CAPITAL MANAGEMENT have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

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**Participation or Interest in Client Transactions**

PATTEN & DAVES CAPITAL MANAGEMENT and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the PATTEN & DAVES CAPITAL MANAGEMENT *Compliance Manual*.

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**Personal Trading**

The Chief Compliance Officer of PATTEN & DAVES CAPITAL MANAGEMENT is Mark Patten. He reviews all employee trades each quarter. His/her trades are reviewed by Mark Patten. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

## **Brokerage Practices**

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**Selecting Brokerage Firms**

PATTEN & DAVES CAPITAL MANAGEMENT does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. PATTEN & DAVES CAPITAL MANAGEMENT recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

PATTEN & DAVES CAPITAL MANAGEMENT recommends discount brokerage firms and trust companies (qualified custodians), such as Charles Schwab.

PATTEN & DAVES CAPITAL MANAGEMENT *DOES NOT* receive fees or commissions from any of these arrangements.

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**Best Execution**

PATTEN & DAVES CAPITAL MANAGEMENT reviews the execution of trades at each custodian each quarter. The review is documented in the PATTEN & DAVES CAPITAL MANAGEMENT *Compliance Manual*. Trading fees charged by the custodians is also reviewed on a quarterly basis. PATTEN & DAVES CAPITAL MANAGEMENT does not receive any portion of the trading fees.

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### **Order Aggregation**

Most trades are mutual funds or exchange-traded funds where trade aggregation does not garner any client benefit.

## **Review of Accounts**

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### **Periodic Reviews**

Account reviews are performed quarterly by advisors Mark Patten & Daves Capital Management, President and George Daves, Executive Vice President. Account reviews are performed more frequently when market conditions dictate.

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### **Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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### **Regular Reports**

Account reviewers are members of the firm's Investment Committee. They are instructed to consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

Clients receive periodic communications on at least an annual basis. *Investment Management* clients receive written quarterly updates. The written updates may include, portfolio statements, and a summary of objectives and progress towards meeting those objectives.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

PATTEN & DAVES CAPITAL MANAGEMENT has been fortunate to receive many client referrals over the years. The referrals came from current clients, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

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### **Referrals Out**

PATTEN & DAVES CAPITAL MANAGEMENT does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

## Custody

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### Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

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### Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by PATTEN & DAVES CAPITAL MANAGEMENT.

## Investment Discretion

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### Discretionary Authority for Trading

PATTEN & DAVES CAPITAL MANAGEMENT accepts discretionary authority to manage securities accounts on behalf of clients. PATTEN & DAVES CAPITAL MANAGEMENT has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

The client approves the custodian to be used and the commission rates paid to the custodian. PATTEN & DAVES CAPITAL MANAGEMENT does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

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### Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades that you have approved.

## Voting Client Securities

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### Proxy Votes

PATTEN & DAVES CAPITAL MANAGEMENT does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, PATTEN & DAVES CAPITAL MANAGEMENT will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

-OR-

Unless the client designates otherwise, PATTEN & DAVES CAPITAL MANAGEMENT votes proxies for securities over which it maintains discretionary authority consistent with its proxy voting policy. A copy of PATTEN & DAVES CAPITAL MANAGEMENT's proxy voting policy is available upon request.

## Financial Information

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### Financial Condition

PATTEN & DAVES CAPITAL MANAGEMENT does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because PATTEN & DAVES CAPITAL MANAGEMENT does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$500 per client, and six months or more in advance.

## Business Continuity Plan

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### General

PATTEN & DAVES CAPITAL MANAGEMENT has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

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### Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

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### Alternate Offices

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

# Information Security Program

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## Information Security

PATTEN & DAVES CAPITAL MANAGEMENT maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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## Privacy Notice

PATTEN & DAVES CAPITAL MANAGEMENT is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the investment planning process.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.



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**Education and Business Standards**

PATTEN & DAVES CAPITAL MANAGEMENT requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of financial planning and tax planning. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

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**Professional Certifications**

Employees have earned certifications and credentials that are required to be explained in further detail.

- Bachelor's degree from an accredited college or university.
- Three-year qualifying full-time work experience.
- Successfully pass the Candidate Fitness Standards and background check.

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**Mark Patten President, COO,**

Educational Background:

- Date of Birth: 12/01/1947:
- B. S. Finance (USC) 1977).

Business Experience:

- Patten & Daves Capital Management. (1993 to present)

Disciplinary Information: Mark has received no disciplinary action.

Other Business Activities: None

Additional Compensation: None

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**George Daves**

Educational Background:

- Date of birth: 8/17/1964
- Bachelor Science, (Economics) University of Oregon 1977

Business Experience:

- Patten & Daves Capital Management (1994 to present)

Other Business Activities:

- George has received no disciplinary action.

Additional Compensation: None

**Supersivion**

George Daves is supervised by Mark Patten & Daves Capital Management, President and COO. He reviews George Daves work through frequent office interactions as well as remote interactions.

SUUPERVISOR'S contact information: (541)770-9494), mark@pattenanddaves.com