

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

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01/01/2012

This brochure provides information about the qualifications and business practices of Capitol Securities Management, Inc.. If you have any questions about the contents of this brochure, please contact us at 804.612.9713 or [khallberg@capitolsecurities.com](mailto:khallberg@capitolsecurities.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 Capitol Securities Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://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 14169.

## **Item 2     Material Changes**

The SEC adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure, dated 03/31/2011, is our new disclosure document prepared according to the SEC's new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## **Item 4    Advisory Business**

Capitol Securities Management, Inc. is a SEC-registered investment adviser with its principal place of business located in Virginia. Capitol Securities Management, Inc. began conducting business in 1981.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- CS Financial Group, Inc., Holding Company

In addition, the following information identifies publicly held subsidiaries that indirectly own 25% or more of our firm:

- Joseph Aristotle Jianos, Chief Executive Officer

Capitol Securities Management, Inc (CSM) currently offers advisory programs through Pershing, Lockwood, TD Ameritrade, Fidelity Investments, National Financial Services, Currian Capital, and the advisory programs of Scott & Stringfellow, here after referred to collectively as the "Platform Firms".

### **ADVISORY SERVICES**

Our firm provides non-continuous asset management of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on the client's particular circumstances are established, we develop the client's personal investment policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we may also review and discuss a client's prior investment history, as well as family composition and background.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Once the client's portfolio has been established, we review the portfolio quarterly and if necessary, rebalance the portfolio on an annual basis, based on the client's individual needs.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)

- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Interests in partnerships investing in real estate
- Interests in partnerships investing in oil and gas interests

Because some types of investments involve certain additional degrees of risk, they will only be implemented or recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

Capitol Securities Management, Inc. offers the following advisory services to our clients:

### **1. Fund Advantage:**

Fund Advantage is a discretionary managed portfolio of mutual funds and/or ETF's. Fund Advantage offers the following eight portfolios:

#### Fund Advantage Six Pack Portfolio

The Fund Advantage Six Pack Portfolio is designed for investors seeking the growth potential of the U.S. equity markets. The portfolio consists of six funds, each representing a different style of investing. The funds are weighted equally, thus eliminating the practice of market forecasting.

#### Fund Advantage Six Pack + International Portfolio

The Fund Advantage Six Pack + International Portfolio is designed for investors seeking the growth potential of the U.S. and foreign equity markets. The portfolio consists of six funds, each representing a different style of investing in the U.S. equity markets. Other region specific funds are used to invest in foreign markets.

#### Fund Advantage Defensive Growth & Income

The Fund Advantage Defensive Growth & Income Portfolio is designed for investors seeking growth potential with reduced volatility. The portfolio targets equal-weighting in U.S. equities, foreign equities and income securities, with 10% allocated to alternative investments. The U.S. equity funds are allocated in accordance with the Six Pack strategy. Foreign funds are region specific. Income funds are selected with an eye towards hedging against inflation and rising rates.

#### Fund Advantage Growth Portfolio

The Fund Advantage Growth Portfolio is designed for investors seeking growth of principal and who do not require an investment in fixed income as part of their asset allocation. The portfolio will provide investors with diversification across U.S. asset classes as well as foreign securities. Additionally, the portfolio will allow for a 10% allocation to alternative investments, which may include sector funds, real estate funds, absolute return funds, etc.

#### Fund Advantage Moderate Growth Portfolio

The Fund Advantage Moderate Growth Portfolio is designed for investors seeking growth of principal with a small fixed income component to help reduce the volatility sometimes associated with an all equity portfolio. The portfolio will provide investors with diversification across U.S. asset classes as well as foreign securities. Additionally, the portfolio will allow for exposure to fixed income securities and alternative investments, which may include sector funds, absolute return funds, etc.

#### Fund Advantage Moderate Portfolio

The Fund Advantage Moderate Portfolio is designed for investors seeking both growth of principal and a fixed income component to help temper the volatility of equities and provide some current income. The portfolio will provide investors with diversification across U.S. asset classes as well as foreign securities. Additionally, the portfolio will allow for exposure to fixed income securities and alternative investments, which may include sector funds, absolute return funds, etc.

#### Fund Advantage Global Growth & Income

The Fund Advantage Global Growth & Income Portfolio is designed for investors seeking growth potential with both foreign and domestic equity exposure through the use of ETFs. Foreign markets will likely represent both developed and developing markets. Alternative investments and sector ETFs are also employed. The income component will typically focus on high quality domestic issues. The portfolio is for risk tolerant investors who seek less volatility than that which is associated with all-equity portfolios.

#### Fund Advantage Global Growth

The Fund Advantage Global Growth Portfolio is designed for investors seeking growth potential with both foreign and domestic equity exposure through the use of ETFs. The portfolio targets deemphasizes overweighting in growth or value in domestic markets. Foreign market ETFs will likely represent both developed and

developing markets. Alternative investments and sector ETFs are also employed. The portfolio is for risk tolerant investor

The minimum initial account size for this product is \$50,000. Fees are charged quarterly, in advance, based upon account value and are calculated as an annualized asset-based fee. Fund Advantage is subject to a minimum fee of \$250.

## **2. Monument Premiere**

CSM offers the ability for clients to invest in "third party" asset managers on a separately managed account basis. Clients will have access to a group of professional portfolio managers in a variety of specialties, including equity and fixed income, mutual funds, and ETF's. The minimum account size for this product is \$100,000. Fees are charged quarterly, in advance, based upon account value and are calculated as an annualized asset-based fee. The total fee for the program can range from 0.50% to 2.50% depending upon the asset level, manager, and advisory representative fees. The fees are negotiable.

## **3. Monument Select**

This product is available in both discretionary versions. In the discretionary version, the advisor may manage the client portfolio for a fee. In the non-discretionary version, the advisor works in conjunction with the client on investment decisions. In both cases, the minimum initial account size for this product is \$50,000. Fees are charged quarterly in advance, based upon account value and are calculated as an annualized asset-based fee. Accounts opened prior to December 31, 2007 may be scheduled to bill in arrears, in accordance with the existing agreement at the time those accounts were opened. In all other aspects, billing is identical to those billing in advance. Monument select is subject to a minimum fee no greater than \$320. Advisors also may charge up to \$25 per transaction provided the client and appropriate supervisors have signed an addendum to the Monument Select Agreement allowing for transaction cost reimbursements.

## **4. Lockwood Allocation Portfolios (LAAP)**

LAAP are ETF portfolios offered through the Lockwood platform. Portfolios are managed by either Lockwood or internally at CSM, depending upon the portfolio. LAAP currently offers the following eight portfolios:

LAAP Current Income

LAAP Endowment Model

LAAP Defensive Growth & Income

LAAP Growth & Income

LAAP Moderate Growth

LAAP Global Growth Static Allocation

## LAAP Growth

The minimum initial account size for this product is \$50,000. Fees are charged quarterly, in advance, based upon the account value and are calculate as an annualized asset-based fee. LAAP is subject to a minimum fee of \$250.

### **5. MAS Strategic Adviser Portfolios Program**

This mutual fund wrap program is available on the Fidelity Investments MAS platform. This program includes portfolios sub-managed by Strategic Advisers, Inc., a wholly-owned subsidiary of Fidelity Investments. Features include professional money management performance reporting and associated services and support. The minimum account size is \$50,000. Fees are charged quarterly per account and will be based upon prio calendar quarter ending balances. Total fee rates range from 0.5% to 2.5% and these rates are negotiable. The minimum account fee to be charged per quarter is \$150. On a quarterly and per account basis, if an account's platform fee (which is included in the total fee rate billed to the client) is less than the quarterly minimum fee (determined by dividing the minimum account fee by the number of days in the year and multiplying that by the number of days in the quarter), then the quarterly minimum fee shall be applied to such account.

## **FINANCIAL PLANNING**

We provide financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service receive a written report which provides the client with a detailed financial plan designed to assist the client achieve his or her financial goals and objectives.

In general, the financial plan can address any or all of the following areas:

- **PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW:** We analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.
- **INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio.
- **INSURANCE:** We review existing policies to ensure proper coverage for life, health,



disability, long-term care, liability, home and automobile.

- **RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **DEATH & DISABILITY:** We review the client's cash needs at death, income needs of surviving dependents, estate planning and disability income.
- **ESTATE:** We assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection plans, nursing homes, Medicaid and elder law.

We gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, returns objectives and attitudes towards risk. We carefully review documents supplied by the client, including a questionnaire completed by the client, and prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion.

We also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning.

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities

- Options contracts on securities
- Interests in partnerships investing in real estate
- Interests in partnerships investing in oil and gas interests

Typically the financial plan is presented to the client within six months of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

Financial Planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **AMOUNT OF MANAGED ASSETS**

As of 1/13/2011, we were actively managing \$176,111,444.06 of clients' assets on a discretionary basis plus \$77,192,987.57 of clients' assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

### **ADVISORY SERVICE- SERVICES FEES**

The annualized fee for Portfolio Management Services is charged as a percentage of assets under management, according to the following schedules:

#### **1. Mutual Fund Advantage Fee Schedule**

<u>From</u>	<u>To</u>	<u>Fee</u>
\$0	\$100,000	1.25-2.5%
\$100,101	\$500,000	1.25-2.5%
\$500,001	\$1,000,000	1.25-2.5%
\$1,000,001	+++++++	1.25-2.5%

A minimum of **\$50,000** of assets under management is required for this service. This account size may be negotiable under certain circumstances.

#### **2. Monument Premiere Fee Schedule**

<u>Amounts Over</u>	<u>Fee</u>
\$0	Up to 2.5%
—	Up to 2.5%
—	Up to 2.5%
—	Up to 2.5%

A minimum of **\$100,000** to **\$250,000** of assets under management is required for this service. This account size may be negotiable under certain circumstances.

### 3. Monument Select Fee Schedules

#### SCHEDULE 2 (IN ADVANCE)/SCHEDULE 1 (IN ARREARS)

<u>From</u>	<u>To</u>	<u>Fee</u>
\$0	\$100,000	1.25-2.5%
\$100,101	\$500,000	1.25-2.5%
\$500,001	\$1,000,000	1.25-2.5%
\$1,000,001	+++++++	1.25-2.5%

#### SCHEDULE 3 (IN ADVANCE)

<u>From</u>	<u>To</u>	<u>Maximum Fee</u>
\$0	\$250,000	1.5%
\$250,001	\$500,000	1.25%
\$500,001	\$1,000,000	1.25%
\$1,000,001	+++++++	1.0%

A minimum of **\$50,000** of assets under management is required for this service. This account size may be negotiable under certain circumstances.

### 4. Lockwood Allocation Portfolios (LAAP) Fee Schedule

<u>From</u>	<u>To</u>	<u>Fee</u>
\$0	\$500,000	0.50-2.50%
\$500,001	\$1,000,000	0.50-2.50%
\$1,000,001	+++++++	0.50-2.50%

A minimum of **\$50,000** of assets under management is required for this service. The account size may be negotiable under certain circumstances.

### 5. MAS Strategic Adviser Portfolios Program Fee Schedule

<u>From</u>	<u>To</u>	<u>Fee</u>
\$0	\$250,000	0.50-2.50%
\$250,001	\$500,000	0.50-2.50%
\$500,001	\$1,000,000	0.50-2.50%
\$1,000,001	+++++++	0.50-2.50%

A minimum of **\$50,000** of assets under management is required for this service. The account size may be negotiable under certain circumstances.

**Limited Negotiability of Advisory Fees:** Although Capitol Securities Management, Inc. has established the aforementioned fee schedule(s), we retain the discretion to negotiate

alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client.

### **FINANCIAL PLANNING FEES**

Capitol Securities Management, Inc.'s Financial Planning fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Financial Planning fees are calculated and charged on an hourly basis. Complexity of each individual client's situation will determine the hourly rate which can range between \$50 and \$200 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

Our Financial Planning fees may also be calculated and charged on a fixed fee basis, typically ranging from \$200 to \$3,000, depending on the specific arrangement reached with the client.

We may request a retainer upon completion of our initial fact-finding session with the client; however, advance payment will never exceed \$500 for work that will not be completed within six months. The balance is due upon completion of the plan.

### **GENERAL INFORMATION**

***Termination of the Advisory Relationship:*** A client agreement may be canceled at any time, by either party, for any reason with written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

***Mutual Fund Fees:*** All fees paid to Capitol Securities Management, Inc. for investment advisory 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 advisory services being provided.

***Wrap Fee Programs and Separately Managed Account Fees:*** Clients participating in

separately managed account programs may be charged various program fees in addition to the advisory fee charged by our firm. Such fees may include the investment advisory fees of the independent advisers, which may be charged as part of a wrap fee arrangement. In a wrap fee arrangement, clients pay a single fee for advisory, brokerage and custodial services. Client's portfolio transactions may be executed without commission charge in a wrap fee arrangement. In evaluating such an arrangement, the client should also consider that, depending upon the level of the wrap fee charged by the broker-dealer, the amount of portfolio activity in the client's account, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. We will review with clients any separate program fees that may be charged to clients.

***Additional Fees and Expenses:*** In addition to our advisory 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 Minimum Account Requirements:*** Pre-existing advisory clients are subject to Capitol Securities Management, Inc.'s minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

***ERISA Accounts:*** Capitol Securities Management, Inc. is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. . As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Capitol Securities Management, Inc. may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset Capitol Securities Management, Inc.'s advisory fees.

***Advisory Fees in General:*** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

***Limited Prepayment of Fees:*** Under no circumstances do we require or solicit payment of fees in excess of \$1200 more than six months in advance of services rendered.

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

Capitol Securities Management, Inc. does not charge performance-based fees.

## **Item 7 Types of Clients**

Capitol Securities Management, Inc. provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Corporations or other businesses not listed above

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

### **METHODS OF ANALYSIS**

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Quantitative Analysis.** We use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

**Qualitative Analysis.** We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.

A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

**Asset Allocation.** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

**Risks for all forms of analysis.** 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.

## **INVESTMENT STRATEGIES**

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

**Long-term purchases.** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Short-term purchases.** When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

**Trading.** We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

**Short sales.** We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, the client account realizes the profit.

**Margin transactions.** We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

A risk in margin trading is that, in volatile markets, securities prices can fall very quickly. If the value of the securities in your account minus what you owe the broker falls below a certain level, the broker will issue a "margin call", and you will be required to sell your position in the security purchased on margin or add more cash to the account. In some circumstances, you may lose more money than you originally invested.

**Option writing.** We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
- A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

**Risk of Loss.** Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help us understand your tolerance for risk.

## **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.

**The following are disciplinary events relating to our firm and/or our management personnel:**

1. ON 4/13/2010, CAPITOL SECURITIES MANAGEMENT, INC. WAS ALLEGED TO HAVE VIOLATED RULE 21 VAC 5-20-260 B FOR ITS FAILURE TO DILIGENTLY SUPERVISE THE ACTIVITIES OF A FORMER ASSOCIATED AGENT. IN A SEPARATE ACTION INITIATED BY FINRA, THE AGENT WAS BARRED FROM ASSOCIATION WITH ANY MEMBER, BROKER-DEALER FOR AN UNSPECIFIED PERIOD OF TIME, FOR ENGAGING IN THE PRACTICE OF BORROWING CUSTOMER FUNDS FROM AT LEAST ONE CLIENT. AS A RESULT OF THE INVESTIGATION CONDUCTED BY STAFF OF THE VA



DIVISION OF SECURITIES, CAPITAL SECURITIES MANAGEMENT, INC. WAS ORDERED TO COMPLY WITH THE FOLLOWING WITHOUT ADMITTING NOR DENYING THE ALLEGATION(S): (1) PAY PENALTIES IN THE AMOUNT OF \$11,300 PURSUANT TO SECTION 13.1-521 A OF THE VIRGINIA SECURITIES ACT ("ACT"), (2) PAY \$3,700 TO DEFRAY THE COST OF THE INVESTIGATION, PURSUANT TO SECTION 13.1-518 A OF THE ACT, AND (3) AMEND ITS POLICIES AND PROCEDURES TO SPECIFICALLY PROHIBIT ITS AGENT FROM ENGAGING IN THE PRACTICE OF LENDING OR BORROWING MONEY OR SECURITIES FROM OR TO CUSTOMERS RESIDING IN VIRGINIA.

## **Item 10 Other Financial Industry Activities and Affiliations**

### ***FIRM Registrations:***

In addition to Capitol Securities Management, Inc. being a registered investment adviser, our firm is registered as a FINRA member broker-dealer.

### ***MANAGEMENT PERSONNEL Registrations:***

Certain management personnel and registered representatives of Capitol Securities Management, Inc. are separately licensed as registered representatives of Capitol Securities & Associates, an affiliated FINRA member broker-dealer. These individuals, in their separate capacity, can effect securities transactions for which they will receive separate, yet customary compensation.

While Capitol Securities Management, Inc. and these individuals endeavor at all times to put the interest of the clients first as part of our fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

Clients should be aware that the receipt of additional compensation by Capitol Securities Management, Inc. and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. Capitol Securities Management, Inc. endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we collect, maintain and document accurate, complete and relevant client background

information, including the client's financial goals, objectives and risk tolerance;

- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Capitol Securities Management, Inc. and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Among other things, our Code of Ethics requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Capitol Securities Management, Inc.'s Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [khallberg@capitolsecurities.com](mailto:khallberg@capitolsecurities.com), or by calling us at 8046129713.

Capitol Securities Management, Inc. and individuals associated with our firm are prohibited from engaging in principal transactions.

Capitol Securities Management, Inc. may, at times, effect an agency cross transaction for an advisory client, provided that the transaction is consistent with our firm's fiduciary duty to the client and that all requirements outlined in Sec. 206(3)-2 of the Investment Advisers Act of 1940 are met.

An agency cross transaction is a transaction in which Capitol Securities Management, Inc.

acts as an investment adviser and broker-dealer for an advisory client and another person on the other side of the transaction.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

We may aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be included in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance

Officer or his/her designee.

6. We have established procedures for the maintenance of all required books and records.
7. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
8. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
9. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
10. Any individual who violates any of the above restrictions may be subject to termination.

As disclosed in the preceding section of this Brochure (Item 10), certain related persons of our firm are separately registered as securities representatives of a broker-dealer or licensed as an insurance agent/broker of various insurance companies. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

## **Item 12 Brokerage Practices**

Capitol Securities Management, Inc. requires that it be provided with written authority to determine the broker-dealer to use for client transactions and the commission costs that will be charged to our clients for these transactions.

Clients must include any limitations on this discretionary authority in this written authority statement. Clients may change/amend these limitations as required. Such amendments must be provided to us in writing.

Capitol Securities Management, Inc. will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block.

Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. Capitol Securities Management, Inc. will typically aggregate trades among clients whose accounts can be traded at a given broker, and generally will rotate or vary the order of brokers through which it places trades for clients on any particular day. Capitol Securities Management, Inc.'s block trading policy and procedures are as follows:

- 1) Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with Capitol Securities Management, Inc., or our firm's order allocation policy.
- 2) The trading desk in concert with the portfolio manager must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.

- 3) The portfolio manager must reasonably believe that the order aggregation will benefit, and will enable Capitol Securities Management, Inc. to seek best execution for each client participating in the aggregated order. This requires a good faith judgment at the time the order is placed for the execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.
- 4) Prior to entry of an aggregated order, a written order ticket must be completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- 5) If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial order ticket or other written statement of allocation. However, adjustments to this pro rata allocation may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. Furthermore, adjustments to this pro rata allocation may be made to avoid having odd amounts of shares held in any client account, or to avoid excessive ticket charges in smaller accounts.
- 6) Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of shares traded for each client.
- 7) If the order will be allocated in a manner other than that stated in the initial statement of allocation, a written explanation of the change must be provided to and approved by the Chief Compliance Officer no later than the morning following the execution of the aggregate trade.
- 8) Capitol Securities Management, Inc.'s client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- 9) Funds and securities for aggregated orders are clearly identified on Capitol Securities Management, Inc.'s records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.
- 10) No client or account will be favored over another.

## **Item 13    Review of Accounts**

### **ADVISORY SERVICES**

**REVIEWS:** While the underlying securities within the Advisory Services accounts are continually monitored, these accounts are reviewed periodically. Accounts are reviewed in the

context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts may be reviewed by compliance personnel, designated supervisors, or the registered representative.

**REPORTS:** In addition to the monthly statements and confirmations of transactions that Portfolio Management Services clients receive from their broker-dealer, Capitol Securities Management, Inc. will provide quarterly reports summarizing account performance, balances and holdings if requested by the client.

## **FINANCIAL PLANNING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

**REPORTS:** Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

## **Item 14 Client Referrals and Other Compensation**

### **CLIENT REFERRALS**

Our firm shares part of the advisory fee with the advisory representative-solicitor to obtain, manage the portfolio, and handle client relations. The sharing is disclosed in the "Solicitor Disclosure" section of CSM's Investment Advisory Agreement. Most advisory representatives-solicitors are registered representatives of CSM.

## **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

Our firm does not have actual or constructive custody of client accounts.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

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.

## **Item 17 Voting Client Securities**

We have the authority to vote proxies for all discretionary client accounts; however, you always have the right to vote proxies yourself. You can exercise this right by instructing us in writing to not vote proxies in your account.

We will vote proxies in the best interests of its clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Katie Hallberg by telephone at 804-612-9713. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact Katie Hallberg by telephone at 804-612-9713.

You can instruct us to vote proxies according to particular criteria (for example, to always vote

with management, or to vote for or against a proposal to allow a so-called "poison pill" defense against a possible takeover). These requests must be made in writing. You can also instruct us on how to cast your vote in a particular proxy contest by contacting Katie Hallberg by telephone at 804-612-9713.

## **Item 18 Financial Information**

Capitol Securities Management, Inc. has no additional no financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Capitol Securities Management, Inc. has not been the subject of a bankruptcy petition at any time during the past ten years.