

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

**Check Capital Management Inc.**

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03/31/2012

This brochure provides information about the qualifications and business practices of Check Capital Management Inc. If you have any questions about the contents of this brochure, please contact us at 714-641-3579. 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 Check Capital Management Inc. is also 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 107058.

## **Item 2    Material Changes**

This Firm Brochure, dated 03/31/2012, is our disclosure document prepared according to the Security and Exchange Commission's requirements and rules. 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 upon the nature of the updated information.

Since our last ADV dated March 31, 2011, the SEC has updated requirements for Qualified Clients. This update affects who can hire and pay us a performance-based management fee. Details are found in Item 6.

Our business has continued to grow at a moderate pace. In Item 4 you will find an update of our assets under management.

Consistent with the 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

Check Capital Management Inc. is a SEC-registered investment advisor with its principal place of business located in Costa Mesa, California. Check Capital Management Inc. began conducting business in 1987.

Check Capital Management Inc. primarily conducts investment management services on a discretionary basis. Investments are predominantly in U.S. equities, corporate and municipal bonds and covered-call stock options. In addition, we advise on other securities including mutual funds, exchange-traded funds, warrants, etc. Check Capital provides asset allocation advice (stocks, bonds and cash weighting) and retirement income-planning services.

Check Capital attempts to collect information from the Client, such as investment objectives, risk tolerance, investment time-horizon, tax considerations, and any reasonable restrictions on the management of the Client's assets. Check Capital will invest the Client's account assets based on those guidelines and in accordance with the Check Capital Investment Program selected by the Client. It is the Client's responsibility to inform Check Capital of any changes. Check Capital does not and will not assume any responsibility for the accuracy of the information provided by the Client.

On a very limited basis, Check Capital recommends and refers clients to unaffiliated money managers (sub-advisors). Through this arrangement, the sub-advisor will assist and advise the client in establishing investment objectives and develop an investment strategy to meet those objectives by identifying and purchasing appropriate investments and monitoring such investments. In consideration for such sub-advisor services, the sub-advisor will receive an investment advisory fee. Check Capital does not receive an investment advisory fee on these assets. The client, prior to entering into a written agreement with the sub-advisor, will be provided with the sub-advisor's Form ADV Part II.

**Mutual Fund:** Check Capital Management Inc. is the investment advisor to the Blue Chip Investor Fund, an investment company registered under the Investment Company Act of 1940. For additional information, the Fund Prospectus and Statement of Additional Information are available on-line at: [www.bluechipinvestorfund.com](http://www.bluechipinvestorfund.com). Prospective investors should review these documents carefully before making any investment in the Mutual Fund.

**Limited Partnership:** Check Capital Management Inc. manages a limited partnership, CCM Private Fund LP, formed for investment purposes. Investment in the partnership involves additional risk and is suitable only for high net-worth clients. Clients interested in investing in the CCM Private Fund LP should refer to the partnership's private placement memorandum for more information specific to the partnership.

Check Capital Management's only principal shareholder is Steven Check.

## PUBLICATION OF PERIODICALS

Check Capital Management Inc. publishes a monthly newsletter, *The Blue Chip Investor*, providing general information on equity investing, asset allocation, market trends, etc. The

information provided does not purport to meet the objectives or needs of any individual investor. The annual subscription rate is \$249. The newsletter is distributed free of charge to advisory clients.

### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2011, we were actively managing \$385 million of clients' assets on a discretionary basis plus \$78 million of clients' assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

***Asset-Based Management Fee Schedule:*** Clients selecting our asset-based management fee schedule will be charged a management fee based on the value of the Client's account. The annual fee is 1.0% of assets for equity-oriented accounts and 0.5% of assets for fixed-income accounts.

***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible for the transaction charges imposed by the brokerage firm in which we effect transactions for the client's account(s).

***Minimum Account Requirements:*** Check Capital generally imposes a minimum investment of \$250,000 per new Client and reserves the right to decline any prospective Client.

***Termination of the Advisory Relationship:*** Within five (5) business days after the execution of the Investment Advisory Agreement, a Client will have the right to terminate the agreement without liability for management fees. However, any investment action taken by Check Capital regarding the client's account prior to the effective date of such termination shall be at Client's risk. After five business days, either party may terminate the agreement at any time by written notice of such termination to the other party. Upon termination of any account, any prepaid, unearned fees will be refunded.

***Mutual Fund Fees:*** All fees paid to Check Capital 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 and other fund expenses.

***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. In a wrap fee arrangement, clients pay a single fee for advisory, brokerage and custodial services. Client's portfolio transactions are executed without commission charge in a wrap fee arrangement.

***ERISA Accounts:*** Check Capital 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.

***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 more than six months in advance of services rendered.

## **Item 6 Performance-Based Fees**

In addition to our asset-based management fee schedule, Check Capital Management also offers clients a performance-based management fee schedule. With our performance fee, clients only pay a management fee when their account earns money. The fee is 10% of the managed account's profits. The fee is calculated and invoiced annually. Should there be a loss in a particular year, no fee will be assessed and the loss will be carried forward to offset the profits accrued in future years. If the client places a "no new buys" trading restriction on the account, or cumulatively withdraws more than 10% of the account's value when the account is down 10% or more from its last billing (or the account's inception), the account will thereafter be invoiced management fees in accordance with our asset-based management fee schedule. As of 9/19/11 the SEC updated the requirements for clients who hire a manager under a profit-based fee. New clients must have at least \$1,000,000 managed by the advisor, or a net worth of at least \$2.0 million (exclusive of residence), to meet the Qualified Client requirement that allows one to hire a money manager and pay for the services with a performance-based fee.

The SEC requires disclosure that a performance-based fee arrangement may create certain conflicts of interest and clients should understand that (i) performance-fee arrangements may create an incentive for the manager to make investments that are riskier or more speculative than would be the case in the absence of a performance fee; (ii) the manager may receive compensation with regard to unrealized (not sold) appreciation as well as realized (sold) gains in the client's account; and (iii) the fees charged by managers in performance-fee arrangements may be higher or lower than fees charged by other advisors for comparable services.

## **Item 7 Types of Clients**

Check Capital Management Inc. provides advisory services to individuals, companies, a mutual fund and a limited partnership. Nearly all accounts that can be opened at a brokerage firm can be managed by Check Capital. The many types of accounts include personal, joint, trust, IRA, Roth IRA, profit-sharing plan, 401-k, etc.

## **Item 8 Investment Strategies and Risk of Loss**

Depending on client's investment objectives, risk tolerance, and time horizons, clients choose (with our guidance) a Check Capital investment program. The portfolios usually consist of stocks, bonds and covered-call options. Our investment programs are known as 1) Quality-Growth Program; 2) Equity-Income Program; 3) Owner-Operator Program; and 4) Fixed-

Income Program. For non-discretionary accounts, clients can choose our flexFolio Program. Clients can learn about these programs by discussing them with Check Capital personnel or referring to our marketing literature.

The performance for all our programs is verified by a CPA. The CPA's performance verification report is available upon request.

Check Capital Management Inc. is a firm that employs a fundamentals-based investment methodology. We attempt to buy high quality securities when their prices are attractive. Our securities analysis makes use of publicly-available sources of information. While we are alert to incorrect information, there is always a risk that our analysis may be compromised by inaccurate information. In addition, even with good information, our conclusions may prove to be wrong and the investments may result in a loss in client portfolios.

## **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. Our firm and our management personnel have no reportable disciplinary events to disclose.

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

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

## **Item 11    Code of Ethics 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. Check Capital 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.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also 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.

Check Capital 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.

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.

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 [ccminfo@checkcapital.com](mailto:ccminfo@checkcapital.com), or by calling us at 714-641-3579.

Check Capital and its employees may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related employee may have an interest or position in a certain security (ies) which may also be recommended to a client. Employees are prevented from benefiting from transactions placed on behalf of advisory accounts.

Side-by-side management refers to the fact that Check Capital manages accounts for individuals, a mutual fund and a limited partnership. Check Capital has policies in place to ensure that all clients of the firm, regardless of entity, are treated similarly regarding trade order and allocation.

Check Capital has trade-error policies that don't advantage or disadvantage clients; errors are simply corrected. Correcting trade errors may result in a gain or loss to Check Capital.

## **Item 12 Brokerage Practices**

Check Capital Management Inc. does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

Check Capital 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. Check Capital 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.

Check Capital Management Inc. has an arrangement with National Financial Services LLC and Fidelity Brokerage Services LLC (collectively, and together with all affiliates, "Fidelity") through which Fidelity provides Check Capital Management Inc. with "institutional platform services." The institutional platform services include, among others, brokerage, custody, and other related services. Fidelity's institutional platform services that assist Check Capital Management Inc. in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.



Fidelity also offers other services intended to help Check Capital Management Inc. manage and further develop its advisory practice. Such services include, but are not limited to, access to educational conferences, roundtables and webinars, practice management resources, access to consultants and other third party service providers who provide a wide array of business related services and technology with whom Check Capital Management Inc. may contract directly.

Fidelity generally does not charge its advisor clients separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Fidelity or that settle into Fidelity accounts (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions).

Check Capital Management Inc. has similar brokerage firm relationships with Schwab Institutional and TD Ameritrade Institutional. Schwab Institutional is a division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA registered broker-dealer, member SIPC. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member.

In circumstances where Check Capital is required to execute transactions through a specific broker (aka "Directed Brokerage"), the Client should understand that: (1) Check Capital will not negotiate specific brokerage commission rates with the broker on the Client's behalf or seek better execution services or prices from other broker/dealers and, as a result, the Client may pay higher commissions and/or receive less favorable net prices on transactions for their account than might otherwise be the case; (2) Check Capital may enter trade orders for the Client's account after large batched trade orders are executed for Clients at other brokerage firms, with the result that market movements may work against the Client; and (3) conflicts may arise between the Client's interest in receiving best execution with respect to transactions effected for the account and Check Capital's interest in receiving future Client referrals from the broker.

Clients who have directed Check Capital to place transactions through a Directed Broker and whose orders cannot be batched with other client orders will generally have their orders entered after a large volume of the batched order has been executed, with the result that market movements may work against the client.

In some cases, Check Capital may, if it feels it is in the best interests of the client, place client trades through a prime broker or trade-away arrangement (i.e., securities are purchased or sold through an outside broker and then transferred to the client's account). In addition to the customary trading cost, the custodial broker will charge the client a fee for such trades, so Check Capital will enter such trades only if it believes that the client will receive a better overall trade execution.

Check Capital may "cross" trades between clients when Check Capital decides it is in the best interests of the clients.

Check Capital Management Inc. is independently owned and operated and not affiliated with any brokerage firm.

## **Item 13    Review of Accounts**

Underlying securities within Individual Portfolio Management Services accounts are frequently monitored. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. Reviews may be triggered by material changes in a client's individual circumstances.

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

### **CLIENT REFERRALS**

Check Capital may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (our *Firm Brochure*) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

It is Check Capital Management Inc.'s policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

Check Capital Management Inc. participates in the Fidelity Wealth Advisor Solutions program. Wealth Advisor Solutions is a referral program designed to introduce high net worth investors to independent registered investment advisors. Check Capital Management Inc. does not pay a fee to participate in the Wealth Advisor Solutions Program. Check Capital Management Inc. participation in the program may raise potential conflicts of interest. Check Capital Management Inc. may have an incentive to recommend that clients custody asset with Fidelity. Check Capital examined this potential conflict and determined that a strong working relationship with Fidelity was in the interest of Check Capital clients.

Prior to January 1, 2007, Check Capital received Client referrals from Schwab through its participation in Schwab AdvisorNetwork ("the Service"). The Service was designed to help investors find an independent investment advisor. Check Capital continues to pay Schwab a referral fee on past referrals. The referral fee is 15% of the client's management fees. Clients

pay no difference in management fees as a result of being referred to Check Capital by Schwab.

## **Item 15 Custody**

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.

In addition to the periodic statements that clients receive directly from their custodians, we also send account statements directly to our clients on an annual basis. We urge our clients to carefully compare the information provided on these statements to the statements received from the brokerage firm to ensure that all account transactions, holdings and values are correct and current.

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

## **Item 16 Investment Discretion**

Clients 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 vote proxies for client accounts; however, clients always have the right to vote proxies themselves. Clients can exercise this right by instructing us in writing to not vote proxies related to their account.

We will vote proxies in accordance with our established policies and procedures. Our firm will retain all proxy voting records for the requisite period of time and a copy of each written client request for information on how the adviser voted proxies.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting us. 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). We may assist clients in the filing of "Proofs of Claim" in class action settlements.

## **Item 18 Financial Information**

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.

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations. Check Capital Management Inc. has no additional financial circumstances to report.

Check Capital Management Inc. has not been the subject of a bankruptcy petition at any time during the past ten years.

**Part 2B of Form ADV: *Brochure Supplement***

Steven Glenn Check  
Jonathan "Jock" Meeks  
Peter Hughes  
Robert P. Hill II  
James Waite

**Check Capital Management Inc.**

Costa Mesa, CA

03/31/2012

This brochure supplement provides information about the individuals listed above, which supplements the Check Capital Management Inc. brochure. Additional information about these individuals is available on the Security and Exchange Commission website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

Steven Check, born 1961. B.S. Electrical Engineering, Iowa State University, 1983. M. S. Electrical Engineering, University of California, Irvine, 1986. President and Chief Investment Officer. He founded Check & Associates Capital Management in 1987, which became Check Capital Management Inc. in 1990. Prior to founding Check Capital, he was a digital signal processing research engineer at Hughes Aircraft Company. He has no reportable disciplinary history; is not engaged in any other investment-related activities; does not receive commissions, bonuses or other compensation on the sale of securities or other investment products; is not engaged in any other business or occupation that provides substantial compensation compared to his Check Capital compensation or earnings on securities investments, or involves a substantial amount of his time.

Jonathan "Jock" Meeks, born 1956. B.A. Psychology, University of Wyoming, 1981. He joined Check Capital as Client Services Director in 2004. He is also the Chief Compliance Officer for Check Capital. From 1992-2004 he was an Investment Consultant at Charles Schwab & Co. He has no reportable disciplinary history; is not engaged in any other investment-related activities; does not receive commissions, bonuses or other compensation on the sale of securities or other investment products; is not engaged in any other business or occupation that provides substantial compensation compared to his Check Capital compensation or earnings on securities investments, or involves a substantial amount of his time. He is supervised by the President of Check Capital Management.

Peter Hughes, born 1972. B.S. Business & Accounting, University of Kansas, 1994. Prior to joining Check Capital in 1998, he was a derivatives hedging analyst for Utilicorp, and previously he was a financial auditor at Arthur Anderson. He has no reportable disciplinary history; is not engaged in any other investment-related activities; does not receive commissions, bonuses or other compensation on the sale of securities or other investment products; is not engaged in any other business or occupation that provides substantial compensation compared to his Check Capital compensation or earnings on securities investments, or involves a substantial amount of his time. He is supervised by the President of Check Capital Management.

Robert Hill II, born 1977. B.S. Finance, California State University, Long Beach, 2001. He joined Check Capital as the Trading Manager in April of 2008. Prior to Check Capital, he was the Business Analyst for a nationally recognized printed-circuit-board distributor, where he researched companies to identify suitable, prospectively profitable business partners. He has no reportable disciplinary history; is not engaged in any other investment-related activities; does not receive commissions, bonuses or other compensation on the sale of securities or other investment products; is not engaged in any other business or occupation that provides substantial compensation compared to his Check Capital compensation or earnings on securities investments, or involves a substantial amount of his time. He is supervised by the President of Check Capital Management.

James Waite, born 1958. B.A. Finance, California State University, Fullerton, 1981. Mr. Waite joined Check Capital in February, 2007. Prior to Check Capital, he worked at Charles Schwab & Co. from 1997-2007, primarily as an Investment Consultant and eventually as a Branch Operations Supervisor. He has no reportable disciplinary history; is not engaged in any other investment-related activities; does not receive commissions, bonuses or other compensation

on the sale of securities or other investment products; is not engaged in any other business or occupation that provides substantial compensation compared to his Check Capital compensation or earnings on securities investments, or involves a substantial amount of his time. He is supervised by the President of Check Capital Management.