

HANSEATIC MANAGEMENT SERVICES, INC.

FORM ADV Part 2A



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This brochure provides information about the qualifications and business practices of Hanseatic Management Services Inc. If you have any questions about the contents of this brochure, please contact us at 505.828.2824 or info@hanseaticgroup.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 Hanseatic Management Services Inc. is also available on the SEC's website at www.adviserinfo.sec.gov

2. MATERIAL CHANGES

THERE HAVE BEEN MATERIAL CHANGES SINCE THE LAST ANNUAL UPDATE OF HANSEATIC MANAGEMENT SERVICES, INC.'S FORM ADV PART 2A, WHICH WAS ON MARCH 11, 2011. HMSI HAD A CHANGE IN CONTROL AND OWNERSHIP.

THERE HAVE BEEN NO MATERIAL CHANGES SINCE THE LAST NON-ANNUAL UPDATE OF HMSI'S FORM ADV PART 2A, WHICH WAS ON JANUARY 5, 2012 TO REFLECT A CHANGE IN CONTROL AND OWNERSHIP.

3. TABLE OF CONTENTS

FORM ADV Part 2A – BROCHURE

1. COVER PAGE	1
2. MATERIAL CHANGES	2
3. TABLE OF CONTENTS	3
4. ADVISORY BUSINESS	4
5. FEES AND COMPENSATION	4
6. PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT	5
7. TYPES OF CLIENTS	6
8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS	6
9. DISCIPLINARY INFORMATION	7
10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS	7
11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING	7
12. BROKERAGE PRACTICES	8
13. REVIEW OF ACCOUNTS	9
14. CLIENT REFERRALS AND OTHER COMPENSATION	9
15. CUSTODY	9
16. INVESTMENT DISCRETION	10
17. VOTING CLIENT SECURITIES	10
18. FINANCIAL INFORMATION	10

FORM ADV PART 2B – BROCHURE SUPPLEMENT

4. ADVISORY BUSINESS

Hanseatic Management Services, Inc. (“Hanseatic”) was founded in August, 1995. The firm is owned by two employees (Russ T. Sanderson owns 51.32%; Brian R. Stangel owns 48.68%; Harry E. Meihaus owns no shares, but continues to serve as CIO and Chairman of the Board; Katherine Burr and Sagres Group, Ltd. are no longer involved in the company nor own equity). Hanseatic offers both discretionary and non-discretionary investment advisory services based on a quantitative model originally developed by Harry E. Meihaus, with implementation and continuous improvement performed strictly in-house by Hanseatic’s team. No outside resources have ever been used in the Hanseatic model development, R&D, or implementation.

The primary need of Hanseatic’s clients is for Hanseatic to invest in a defined category of US exchange-traded equities using Hanseatic’s quantitative model. Hanseatic currently offers client-contract-specified separate accounts in the following products: US Large-Cap Growth, US Large-Cap Custom (screened for stocks with investment grade bond ratings), US Large-Cap, US All-Cap, US High-Yield Equity, US Mid-Cap Growth, US Small-Cap Growth, and Global Equity (any foreign equities that are domestically listed). Client needs are typically defined in each institutional investor’s contract.

Hanseatic devotes 97% of its business time providing regular and continuous advisory services to institutional investors, in discretionary separate account format, tailored to the individual needs of each institutional investor. Institutional clients may require Hanseatic to stay fully invested with low levels of cash (usually around 5%), to avoid investing in certain classes of equities (for political or policy reasons), to meet certain ERISA requirements (e.g. errors and omissions insurance levels), and to produce customized reports for a variety of end-users on a variety of different schedules, among many other needs, with which Hanseatic is prepared to comply.

Hanseatic also provides advisory services based on Hanseatic’s quantitative model to non-institutional clients, on both a discretionary and non-discretionary basis, which represents about 3% of Hanseatic’s business time.

Currently Hanseatic does not participate in wrap programs or in any commingled funds.

As of March 20, 2012 Hanseatic had \$284 million in Assets Under Management. \$194 million were in discretionary accounts described above in this same Section 4 “Advisory Business.” \$90 million were in the non-discretionary accounts, also described above.

5. FEES AND COMPENSATION

Hanseatic offers its advisory services for a fixed fee calculated as a percentage of assets under management. Hanseatic will charge from 35-125 basis points, depending on asset size according

to the fee schedule below. Hanseatic's fees are billed in arrears unless other arrangements are agreed to on a client by client basis. Depending on circumstances, fees may be negotiated.

With few exceptions, Hanseatic's institutional clients use their own contracts that dictate to Hanseatic the fixed fee, termination requirements and refund provisions.

If Hanseatic's advisory contract is used for a client relationship, Hanseatic's contract provides for termination of advisory services by either party with written notice to the other party. Upon termination of the agreement, fees are prorated, when applicable, as Hanseatic fees are generally billed in arrears.

Hanseatic Fee Schedule by Product Offering

US Large-Cap (Core/Growth/Custom), US Mid-Cap Growth, US All-Cap, US High Yield Equity

\$50,000 - \$1 MM	125 basis points
\$1-10 MM	80 basis points
Next \$15 MM	40 basis points
Balance	35 basis points

US Small-Cap Growth, Global Equity

\$50,000 - \$1 MM	125 basis points
\$1-\$10 MM	90 basis points
Next \$15 MM	45 basis points
Balance	40 basis points

Hanseatic's clients may also pay fees related to the client's custodian, any fund structures, and to the account's broker (see Section 12 "Brokerage Practices.") These fees are established by the client in negotiation with the custodian, fund, and/or broker in question, not by Hanseatic. In the event Hanseatic feels, as the result of its advisory experience, that any non-Hanseatic fees are excessive or imprudent, Hanseatic will so apprise its clients. Neither Hanseatic nor its individual employees accept any compensation for the sale of securities or other products.

6. PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

Hanseatic currently charges no performance-based fees on any of its accounts.

7. TYPES OF CLIENTS

Hanseatic provides investment advisory services primarily to institutional investors, including but not limited to pension and profit sharing plans, trusts, estates, charitable organizations, corporations, other business entities, private funds, and investment companies. Some of these institutional client relationships are established through a Fund Manager/Sub-Advisor contract, whereas Hanseatic is the Sub-Advisor. Hanseatic also provides investment advisory services to individual investors, including high net worth individuals. In all circumstances, there is no minimum account size for Hanseatic's advisory services; however, to establish a trading account for one of Hanseatic's products, the minimum account size is \$50,000. Regardless of client type or minimum account size, each Hanseatic client must execute a written contract (provided either by the client, by the custodian or by Hanseatic) that governs Hanseatic's investment advisory relationship with the client.

8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

Hanseatic developed its own quantitative investment system in-house, based on work started in the early 1980's by Hanseatic principal Harry E. Meihaus and further implemented by the Hanseatic team. The system is completely proprietary, using no outside resources, including off-the-shelf software programs. Using price and time as the sole inputs, Hanseatic's quantitative system consistently identifies long-term investment opportunities. Specifically, the system's multi-time dimensional framework identifies stocks whose emergent price trends have a better than normal probability of persisting into a 6-36 month target holding period with positive alpha (positive difference between actual rate of return and the client benchmark's rate of return). Hanseatic's quantitative system also reliably identifies relatively optimum market entry and exit points. Proprietary time dimension patterns, which can be daily, weekly, and monthly in nature, are used to identify shorter term entry and exit points. The intersection of the multi-time dimensional trend measurement component and the shorter-term time boundaries for entry and exit is the foundation of Hanseatic's quantitative system.

Hanseatic uses an evolutionary approach of constant improvement to advance its quantitative system. The goal of this advancement is to ensure the alpha-producing optimal holding period remains consistently identified by the system. The main risk in Hanseatic's quantitative system is the system's not adequately identifying the alpha-producing optimal holding period. The result of such inadequate identification is underperformance of a client benchmark. The potential loss associated with such underperformance is a risk Hanseatic's clients must be willing to bear. To mitigate such risk, Hanseatic uses strict portfolio construction criteria with a particular emphasis on broad diversification of holdings across and within sectors.

Basic Portfolio Criteria	
Expected Number of Securities	75-125
Maximum size of each security holding (as % of portfolio)	2% above benchmark weight
Maximum size of holding in each sector (as % of portfolio)	10% +/- benchmark weight
Expected Turnover (over a 3 year period)	200% (varies by market environment)

9. DISCIPLINARY INFORMATION

Hanseatic and its personnel are not subject to any legal or disciplinary action or event that is material to any current or potential client's evaluation of Hanseatic's advisory business or to the integrity of Hanseatic's employees and shareholders.

10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Hanseatic and its personnel do not participate in any other financial industry activities and affiliations that are material to any current or potential client's evaluation of Hanseatic's advisory business or to the integrity of Hanseatic's employees and shareholders.

11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Hanseatic's Code of Ethics protects the interests of Hanseatic's clients from any conflicts of interest with Hanseatic that could cause financial disadvantage to clients as a result of Hanseatic employees recommending, owning or trading the securities in client portfolios managed by Hanseatic. Further, to enforce compliance, the Code of Ethics provides a mechanism to monitor Hanseatic employee participation or interest in Client securities as well as Hanseatic personal trading, be it in Client-related securities or more generally. Finally, the provisions of Hanseatic's Code of Ethics are strengthened through Hanseatic's other Corporate Policies, including insider trading, ongoing ethics training, anti-money laundering, anti-fraud, professionalism in the workplace, and privacy and control of client information. A copy of the Code of Ethics as well as the Corporate Policy Manual is available upon request.

Hanseatic's Code of Ethics applies to any purchases and sales of equities, options on equities or options on any other publicly traded commodity or security, commodity futures contracts, derivative contracts, fixed income securities, hedge funds, or mutual funds, not just to securities held in client portfolios managed by Hanseatic. Hanseatic's Code of Ethics applies to Hanseatic as an entity and to all employees who individually own such securities or whose immediate family owns such securities, whether or not such securities are in client portfolios managed by Hanseatic.

Currently Hanseatic as an entity trades no securities for its own account. Hanseatic employees who do trade any of the securities listed in the paragraph above must provide Hanseatic the

monthly statements of such trading. Further, if any employee trading is in securities directly or indirectly related to securities held in client portfolios managed by Hanseatic, to avoid any conflict that would disadvantage a client, such employee trading must be done after all Hanseatic client trading has been completed, whenever such trading takes place during the course of the Hanseatic day.

In the event Hanseatic or any of its employees has a material financial interest in a security that might be in a client portfolio managed by Hanseatic, Hanseatic will determine on a case by case basis what action must be taken by Hanseatic to avoid any conflict that might disadvantage a Hanseatic client. For example, if a Hanseatic employee is a member of a family that substantially controls a stock listed on a US exchange, Hanseatic might choose not to include such stock in any client portfolio. Such choice would avoid not only any trading conflicts but also any insider trading issues.

Adhering to the Code of Ethics is a condition of employment at Hanseatic. If a Hanseatic employee is found to be in breach of Hanseatic's Code of Ethics, then Hanseatic's Chief Compliance Officer, Corporate Officers, or Board of Directors will take action ranging from a verbal warning to dismissal, depending on the circumstances of the breach.

12. BROKERAGE PRACTICES

In suggesting brokers and the reasonableness of their commissions Hanseatic considers (i) the reputation of the broker in the financial community; (ii) past business experience, if any, with the broker; (iii) the range and quality of ancillary services provided by the broker; (iv) the broker's ability to execute in a timely, efficient, and error-free manner; (v) the expertise of the brokers registered representatives; (vi) the broker's ability to execute transactions in all of the markets in which Hanseatic offers products; and (vii) any client-specific requirements, e.g. a ceiling on brokerage costs. Hanseatic determines the reasonableness of the broker's commissions based on (i) Hanseatic's assessment of the broker's performance in the context of the foregoing seven factors and (ii) whether the broker commissions are reasonable in comparison to the charges of comparable brokers in terms of expertise and market coverage. Clients directing brokerage to a particular broker/dealer may be charged higher commission rates than those clients who authorize Hanseatic to select the broker/dealer and are apprised of such.

In the interest of best execution and to ensure as fair and equitable a basis as possible for allocating trades among various clients, where possible and permitted by the client, Hanseatic frequently bunches transactions for execution at one brokerage house. The transactions are then given up to the custodial broker after execution. The most common practice is to execute the orders for the customer and to compute as nearly the same price as possible. This ensures that all bunched transactions receive as nearly the same price as possible. Typically, Hanseatic's bunched transactions have brokerage at around 1cent a share. Separate accounts and ERISA-type accounts both participate in Hanseatic's bunched transactions.

If a Hanseatic client directs Hanseatic to place its trades with a certain broker, which has happened and can happen again, Hanseatic might be limited in its ability to negotiate commissions or volume discounts. In this context, certain Hanseatic clients have directed Hanseatic to place from 35-50% of their account trades with minority or women-owned brokers and, separately, 35% of their account trades with commission-recapture brokers.

Hanseatic accepts no “soft dollar” benefits nor does it direct brokerage as a reward for client referrals.

13. REVIEW OF ACCOUNTS

All securities positions held by Hanseatic’s clients are reviewed daily by Hanseatic’s portfolio management team. Hanseatic reconciles all trades with broker confirmations as soon as possible on the trade day. Further, Hanseatic uses the OMGEO system to settle trades as soon as possible rather than waiting for the industry standard of settling trades on the third day after trading (T+3). Last, Hanseatic’s trading team enters all trades into the back office tracking and accounting software system on the trade day. These daily procedures allow for immediate troubleshooting of errors as well as monitoring of changes in cash positions.

The Hanseatic trading team reconciles positions with account custodians at least weekly. Hanseatic’s trading and portfolio teams, performs monthly reviews and reconciliations with custodian month-end account statements to verify positions, prices, cash, and total value. Hanseatic’s third-party GIPS (Global Investment Performance Standards) accountant works with Hanseatic on a quarterly basis, and more frequently if necessary, to ensure Hanseatic’s performance reporting complies with GIPS standards. At least monthly, unless clients require so more frequently, Hanseatic furnishes statements of gains and/or losses, as well as any client-required further analyses (e.g. illustrative trade, sector, and/or economic). Hanseatic also maintains a web site (www.hanseaticgroup.com) which includes monthly account composites that are GIPS compliant, along with more general information about Hanseatic’s advisory services.

14. CLIENT REFERRALS AND OTHER COMPENSATION

Hanseatic does not pay for client referrals, either to third-parties or internally. Hanseatic receives no compensation from non-clients or from any third-parties for any activity related to its advisory business.

15. CUSTODY

Hanseatic does not act as a custodian. Clients receive account statements directly from their qualified custodians. Hanseatic encourages clients to carefully review all custodian statements.

16. INVESTMENT DISCRETION

Discretionary authority by Hanseatic over the purchase and sale of client securities is based on and a function of the investment objectives of each client. These investment objectives are continuously monitored through Hanseatic's ongoing personal contact with the client. So stated, Hanseatic generally has complete authority to determine, without obtaining client consent, the securities to be bought or sold, the amount of such securities, the broker/dealer to be used, and the commission to be paid for each of the firm's clients. Any exception to this authority is dictated on a case by case basis per client contract or per Fund Manager requirements. Such exceptions may limit trading to certain broker/dealers or require disclosing trades to the Fund Manager before execution on behalf of the mutual client. In such cases the client may be put at a disadvantage in terms of best execution. Hanseatic discloses such potential disadvantage to the client and/or Fund Manager immediately upon learning about any such restrictions on Hanseatic's investment discretion.

17. VOTING CLIENT SECURITIES

Hanseatic's stock selection focuses more on math than on economic data; therefore, Hanseatic's general policy for voting client securities is to abstain from voting. Proxies are voted only if required by the client. If required by a client, Hanseatic votes according to the client proxy voting guidelines. Absent specific guidelines, Hanseatic votes independent of external influence to maximize long-term shareholder value, maintain shareholder control, and to generally approve routine corporate matters. Hanseatic evaluates some issues case-by-case, e.g. stock option and bonus plans, corporate combinations and divestments, shareholder proposals, and social/political proposals. Hanseatic utilizes ProxyEdge as its proxy service for accounts that require voting. A copy of Hanseatic's current standing instructions with ProxyEdge is available upon request. Specific proxy votes cast by Hanseatic are available upon request to clients who require Hanseatic to vote their securities.

18. FINANCIAL INFORMATION

Hanseatic does not require or solicit prepayment of fees. Hanseatic has not been the subject of a bankruptcy petition at any time since its founding in 1995.

Hanseatic Management Services, Inc.



Supplemental Brochure

Form ADV Part 2B

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This brochure supplement provides information about Ed Meihaus, Russ Sanderson, Brian Stangel and Amy Stangel that supplements the Hanseatic Management Services, Inc. brochure. You should have received a copy of that brochure. Please contact Amy Stangel/Chief Compliance Officer at 505 828 2824 or info@hanseaticgroup.com if you did not receive Hanseatic Management Services, Inc.'s brochure or if you have any questions about the contents of this supplement.

BIOGRAPHIES

Ed Meihaus, Chief Investment Officer/Chairman, (BSME, University of Louisville, MBA, University of Memphis), joined Hanseatic in 1985. Since then he has continued to develop quantitative model-based investment applications, primarily the set of disciplines which underlie the company's equity products. Prior to joining Hanseatic Mr. Meihaus ran his own investment company and worked for various energy companies in capital budgeting. Mr. Meihaus has no disciplinary history. He is supervised by Hanseatic's Board, whose members can be contacted through Hanseatic at 505 828 2824.

Russ Sanderson, Chief Technology Officer, (BUS, University of New Mexico), joined Hanseatic in 1989. Russ provides day-to-day oversight of the business and maintains the primary technical role in the oversight and application of the Hanseatic models which are used to manage the services Hanseatic provides. Over the years he worked in all major aspects of the firms operations focusing primarily on systems development and IT. Prior to joining Hanseatic Mr. Sanderson worked as a computer programmer/IT specialist. Mr. Sanderson has no disciplinary history. He is supervised by Hanseatic's Board, whose members can be contacted through Hanseatic at 505 828 2824.

Brian Stangel, President/CEO, (BA, University Wisconsin-Milwaukee), joined Hanseatic in 1993. Upon joining the firm he developed knowledge and experience in each of the major operational and support areas of the business, including trading, compliance and performance accounting. He currently serves as President/CEO and is a member of the portfolio management team. Mr. Stangel joined Hanseatic after graduating from college. Mr. Stangel has no disciplinary history. He is supervised by Hanseatic's Board, whose members can be contacted through Hanseatic at 505 828 2824.

Amy Stangel, Chief Compliance Officer, (MBA/Accounting Concentration, University of New Mexico, BA International Relations, University of Wisconsin-Milwaukee), joined Hanseatic in 2012. Ms. Stangel has two decades of experience in administration and control in a variety of businesses, including financial services. Ms. Stangel has no disciplinary history. She is supervised by Hanseatic's Board, whose members can be contacted through Hanseatic at 505 828 2824.