

## **SCM ADVISORS, L.P.**

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This brochure provides information about the qualifications and business practices of SCM ADVISORS, L.P. If you have any questions about the contents of this brochure, please contact us at 972-763-1920. 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.

The date of this brochure is March 21, 2012. It is an amendment to the brochure filed by SCM ADVISORS, L.P. as of March 28, 2011. While there are changes in this amended brochure as compared to the one filed as of March 28, 2011, in our view they are minor and not material.

Additional information about SCM ADVISORS, L.P. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **ADVISORY BUSINESS**

SCM ADVISORS, L.P. (“SCM”, “the firm”, “we” or “us”) can trace its founding, through predecessor firms, to 1991. As of December 31, 2011, we manage approximately 567 accounts for approximately 189 clients. These accounts comprise total assets of approximately \$442,000,000. Of those assets we manage approximately \$383,000,000 on a discretionary basis and approximately \$58,000,000 on a non-discretionary basis. Our principal is John A. (Pete) Bricker, Jr. (“Mr. Bricker”), who is the only person in the firm offering investment advice to clients. We currently employ four other persons on a part-time basis to provide administrative support for our practice.

SCM is organized as a Texas limited partnership. Its general partner is a Texas limited liability company, Savannah Capital Management, L.L.C. Its limited partners are Mr. Bricker and his wife, Diane W. Bricker (“Mrs. Bricker”). The owners of Savannah Capital Management, L.L.C. are Mr. and Mrs. Bricker.

The focus of our business is helping our clients plan and manage their investments. This typically involves working with our clients to arrive at a target allocation of their financial assets amongst different asset classes, and then implementing that allocation across any number of brokerage or other accounts. To facilitate this process we have four standard target asset allocations that are intended to span the risk spectrum, from relatively low-risk to relatively aggressive. While for a variety of reasons many of our client portfolios do not conform exactly to any of our standard target asset allocations, we generally establish one of our standard target asset allocations as a reference point for each of our client portfolios. In a few instances, in response to client requests, we have explicitly agreed to depart from our standard target asset allocations and create a custom allocation for the client in question.

We are not financial planners, and we do not prepare formal financial plans for our clients. We do, however, typically consult with our clients regarding a broad range of financial issues, such as taxes, insurance, estate planning, retirement planning, real estate purchases and charitable giving.

## **FEES AND COMPENSATION**

We are what is often referred to as a “fee-only” investment advisor. The only way we are compensated is through fees we charge our clients. We do not receive commissions on brokerage transactions we originate on behalf of our clients, nor do we receive commissions, “loads” or “trailers” on any mutual funds we purchase for our clients. We do not sell products to our clients in which we have any financial interest. This approach eliminates many potential conflicts of interest between us and our clients, and enables us to be impartial and objective in selecting investments for our clients’ portfolios.

The fees we charge our clients are calculated by applying percentages to the market value of each client’s accounts. These fees are calculated in arrears by calendar quarter. For purposes of calculating fees, the market value of each client’s accounts is the market value at the end of each quarter, adjusted for additions to or withdrawals from the accounts since the beginning of the quarter. The annualized percentages applied to the market value of each client’s accounts are 1.25% to the first \$250,000 of market value of the accounts, from \$0 to \$250,000; 1.00% to the next \$250,000 of market value of the accounts, from \$250,000 to \$500,000; .75% to the next \$250,000 of market value of the accounts, from \$500,000 to \$750,000; .50% to the next \$9,250,000 of market value of the accounts, from \$750,000 to

\$10,000,000; .25% to the next \$40,000,000 of market value of the accounts, from \$10,000,000 to \$50,000,000; and .10% to any market value of the accounts in excess of \$50,000,000.

For purposes of calculating fees we include the market value of such client accounts, and of such of the assets within client accounts, as we and our clients from time to time agree upon. Accounts that might be excluded from the fee calculation might include accounts that are small, transitory or not actively managed within the context of managing the client's overall portfolio. Assets that might be excluded from the fee calculation might include cash or near-cash that, by agreement with our client, will not be invested in longer-term investments in the foreseeable future; or positions in individual securities that were owned by our client prior to inception of our relationship, and that, by agreement with our client, will not be sold in the foreseeable future, and do not require active management or oversight.

For purposes of calculating fees we aggregate the market value of such client accounts with the market values of such other related accounts as we and our clients from time to time agree upon. So, for example, it is typical for us to aggregate the accounts of related persons or entities (spouses, children, trusts, etc.) for purposes of calculating fees. In such instances fees are allocated to each of the client accounts and other related accounts pro rata based on the market value of each.

Beyond reaching agreement with our clients on the matters discussed in the two preceding paragraphs, our fee schedule and calculations are not negotiable. In the matter of fees, as in all other matters, we strive for an extremely high degree of consistency in our treatment of clients. It makes our life easier and, we believe, is most fair to our clients.

We ask all our clients to authorize the brokerage firms that hold their assets to charge their accounts for our fees. Once we calculate fees after the end of each quarter we electronically upload the calculated amounts to the brokerage firms that hold our clients' assets and ask those firms to charge our clients' accounts for the calculated amounts and to transfer those amounts to our account at the same brokerage firm. This typically happens within five business days of the end of the quarter. Several weeks later, when we provide reports to our clients, we include an invoice showing how fees for the quarter were calculated.

In addition to the fees our clients pay us, our clients also incur the management fees and any other expenses of any mutual funds or other investment vehicles that we select for their portfolios. Since these fees and expenses are typically deducted directly from the investment vehicle, they aren't necessarily obvious to investors but they represent a real cost to our clients. Many mutual funds offer special share classes (sometimes referred to as "institutional" or "advisor" share classes) that can be purchased only through investment advisors, and that carry discounted fees as compared to share classes that are available at retail or through other distribution channels. We make use of these share classes whenever they are available, which has the effect of reducing any incremental cost of doing business with us as compared to accessing the funds directly or through other distribution channels.

While our arrangements with the brokerage firms that hold our clients' assets do not provide for the payment of any explicit fees for custodial services, they do provide for the payment of transaction fees. These typically range from \$20 to \$50 per mutual fund trade, depending upon the amount of the trade, and from \$10 to \$20 for trades in individual equities. When purchasing certificates of deposit or bonds from brokerage firms the prices we pay are typically marked up by amounts that are difficult for us to determine. Most of the bonds we buy are municipal bonds purchased from a broker that holds no assets for any of our clients. Our understanding with that broker is that those bonds are marked up by \$10 per bond.

Please refer to the section below on BROKERAGE PRACTICES for more information about how we choose and deal with brokerage firms.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As implied in the section above on FEES AND COMPENSATION, we do not accept any performance-based fees from any of our clients. This eliminates the possibility of any conflict that might arise from our having an incentive to favor accounts on which we accept performance-based fees relative to other accounts subject to other types of fee arrangements.

## **TYPES OF CLIENTS**

Virtually all of our clients are individuals. We do advise one 401(k) plan for a company of which one of our individual clients is the principal. Individual clients range in age from early 20s to mid-80s and include college students, professionals, retired persons, widows and divorcees. We typically manage virtually all of our clients' financial assets, which typically means we manage multiple accounts for each of our clients. This may mean, for example, in the case of a married couple with children, managing community property accounts for the couple; separate property accounts, retirement accounts and trust accounts for each individual; custodial and trust accounts for the children; and, in certain cases, accounts for family foundations.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Most of our clients' assets are invested in open-end, no-load mutual funds. We pick some individual equities for some of our clients, but those clients are a small portion of the total, and the assets represented by the individual equities we pick are also a small portion of the total. We manage portfolios of individual municipal bonds for a handful of clients. We also analyze and recommend limited partnerships and other investment vehicles for less than a handful of clients.

In constructing portfolios of mutual funds, we try first to get our clients positioned in the appropriate range of the risk spectrum, then to construct portfolios that maximize their return within that range of risk. Our primary tool in controlling risk and maximizing return is diversification. When we talk about diversification, what we mean is we construct portfolios using individual building blocks – mutual funds, in this instance – that don't move in synch with one another. We try to achieve diversification both by investing *across* different classes or categories of assets, and by investing in different types of funds *within* each class or category of assets. As we do this we think in terms of four different types of assets: equities, fixed income, alternative assets or strategies, and commodities. Within each of these asset classes we seek further diversification by employing funds that focus on different segments of the market or use different strategies. So, for example, within the equities asset class we typically employ several funds that focus primarily on domestic US equities, and several funds that focus on non-US equities. Within the domestic equity allocation, some of the funds focus on larger companies, some on smaller companies and some on mid-size companies. Within the fixed income asset class we typically employ a fund that focuses on domestic US bonds, a fund that focuses on non-US bonds and a fund that focuses on inflation-protected bonds. Within the alternatives category we typically employ several funds, each of which pursues different, and somewhat esoteric, strategies.

One dimension in which we do not try to achieve diversification is *style*, or *growth* as compared to *value*. We are firm believers in the value approach to investing, and the fund managers we employ all tend to be on the value end of the style spectrum.

In selecting funds for our portfolios, we generally look first at qualitative factors – what the fund manager says he or she is trying to do, and how he or she is trying to do it – then look at more quantitative factors to determine how successfully the fund manager executes. We read widely in the financial press to identify fund managers that may be of interest to us, and then research their funds primarily using the Morningstar mutual funds database. We also do some purely quantitative or statistical screening within the Morningstar database. The criteria we consider in selecting funds for our portfolios include track record, both in the absolute and relative to funds in the same Morningstar category; volatility; correlations to other types of funds and assets; fund manager tenure; and fund expenses.

We tend to make relatively few changes in our portfolios. Once or twice a year we may change our allocations to different asset classes, or change the funds we use within a given asset class. We understand that even gifted managers will go through periods of underperformance, and we try to be patient with them. As someone once said, we're trying to win the game, not every inning. We understand we may not outscore the other team in every inning, but if we're ahead at the end of the game, that's what counts. Our relatively low level of activity also has the advantage of reducing transaction costs and taxes.

All investment approaches entail some risk of loss, and the approaches we use are no different in that regard. We do try to make a distinction between temporary losses that reflect market fluctuations and permanent losses of capital. We and the managers we employ are generally most focused on the latter, though we do what we can to minimize the former in accordance with our clients' tolerances. As a practical matter we do not believe investing through mutual funds entails any greater risk than investing in individual securities. The degree of diversification that can be achieved with mutual funds arguably makes them a less risky medium for investing than individual securities. Mutual funds are, however, subject to redemptions, and in theory a fund might find itself in a "run", such that it has to liquidate holdings to fund redemptions. In an extreme case this could put the fund in a downward spiral, in that liquidations lead to lower prices for its holdings, which are reflected in lower returns, which lead to more liquidations. This is not an obvious phenomenon if and when it is underway; our intuition is it is relatively rare.

In selecting individual equities, we follow a fundamental, value-oriented approach. We are generally trying to buy companies at prices less than their intrinsic value, and then sell them when their market prices approach or exceed their intrinsic value. We often are required to wait several years for that to happen, and we are prepared to do that. We generally buy to a 25-position portfolio (i.e., a 4% position size), and will often open a position at something less than full size in order to give ourselves room to average down. It would be extremely rare for us to let any position exceed 6% of the portfolio on a cost basis, or 10% on a market value basis. When coming out of a position we will often do so in two or three stages. We rely heavily on Value Line in originating and researching ideas, but also occasionally talk with other investors about their ideas and our own.

There are many risks associated with investing in individual equities. The prices of individual equities can fluctuate dramatically, and over extended periods of time, for reasons that have nothing to do with the operations, prospects or value of the companies in question, or for no discernible reasons at all.

Even when investing in companies listed on major stock exchanges, fraud is a disconcertingly frequent occurrence. We may miss substantially on our valuation of a company, to a degree that exceeds any margin of safety we thought present.

In selecting individual municipal bonds, we rely heavily on a broker who focuses exclusively on municipal bonds. He originates virtually all our ideas for these portfolios, and we typically talk at length with him about his ideas before we make a decision to purchase. We are keenly aware that in this day and age (i.e., post municipal bond insurance) it is extremely important to understand the specifics of the credit underlying each bond. We also believe every bond has a story, many of them fairly arcane and esoteric, and we believe it's important to know the story. Our portfolios could be fairly described as eclectic, in that they comprise bonds from many smaller, off-the-beaten track issuers. We rarely purchase plain-vanilla General Obligation bonds issued by states or municipalities. The last few years we have generally tried to keep maturities short (i.e., less than three years) in anticipation of rising inflation and interest rates.

Although municipal bonds are generally regarded as relatively low-risk assets, there are many risks associated with investing in them. As with most types of bonds, there is interest rate risk, i.e., the risk that interest rates will rise and cause bond prices to fall; and credit risk, i.e., the risk that the issuer of the bonds becomes unable to make the payments required under the bonds. In recent years, with the declining economy and declining tax revenues, and with growing unfunded pension and health-care liabilities, the credit of many municipal issuers has been under particular stress.

In selecting limited partnerships and other investment vehicles, we rely heavily on products sponsored by large financial institutions and products to which we have been referred by other investors. Many of these products are fairly narrow in their focus. In evaluating these products we consider the merits of the investment idea and the track record and capabilities of the managers.

These types of investments also entail significant risks. Many of these types of investments involve committing capital for lengthy periods with no liquidity, and little basis for judging how the investments are performing. Managers of these types of investments are often aiming for out-sized returns, and can be spectacularly right, but can also be spectacularly wrong. Even if managers of these types of investments are making consistently good decisions, markets can move against them. Fraud can also be an issue with these types of investments.

## **DISCIPLINARY INFORMATION**

We have not been involved in or subject to any legal or disciplinary events or actions.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Mr. Bricker has no other financial industry activities or affiliations.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

We intend not only to provide the highest quality of service to our clients, but also to act always in accordance with the highest standards of ethical conduct. We understand and acknowledge that, as an investment advisor, we act in a fiduciary capacity in behalf of our clients, and, accordingly, are obligated to always place our clients' interests ahead of our own. This obligation is the cornerstone of our standard of ethical conduct with regard to our clients. More broadly, we intend to always act on fundamental principles of integrity, fairness, openness, honesty and trust, such that everyone with whom we deal – whether clients, employees, vendors, regulators, or others – will perceive and appreciate that we are governed by the highest ethical values. We intend to treat everyone with whom we deal just as we would like to be treated if our roles were reversed. We believe we have a business because people trust us, and we intend to do everything in our power to warrant and safeguard that trust. In furtherance of these intentions and values, we have adopted a written Code of Ethics, which we would be pleased to provide to any client or prospective client on request.

As noted above in the section on FEES AND COMPENSATION, we do not sell products to our clients in which we have any financial interest. We do, however, often buy or sell for our own accounts the same securities we recommend to clients, which in certain instances can raise the potential for conflicts of interest between us and our clients. This is generally not an issue when the securities are shares of open-end mutual funds, which are priced at net asset value as determined after the close of each day's trading, and which are issued on demand by the mutual fund. It can be an issue, however, when the securities are shares of common stock or bonds or other securities issued by corporations or other issuers which are not necessarily available to all buyers at a single price throughout the day. The concerns in these instances are that we might divert to ourselves or to certain favored clients opportunities that are limited in availability; or that we might allocate trades in a particular security executed at more favorable prices during the day to ourselves or to certain favored clients; or that we might trade for ourselves or for certain favored clients ahead of other clients so that we might buy at a lower price or sell at a higher one.

As a practical matter, the potential for these types of conflicts arises only rarely for us as we conduct our business day-to-day, because so much of our trading is in open-end mutual funds. When we trade other types of securities, however, the potential for these conflicts does exist. We have put in place certain policies and procedures to address this potential.

The only instances in which we are offered investment opportunities that are limited in availability involve municipal bonds. We have very few clients who are active buyers of municipal bonds. When bonds are offered to us we typically allocate those to the portfolios of those clients based on the relative size of their holdings of municipal bonds. We occasionally depart from this practice when there is limited capacity in a particular portfolio for any additional bonds, or for bonds of the sort we are being offered. While in some sense every municipal bond is unique, and has its own story, there is a fairly high degree of commonality in the types of bonds we look for and buy, such that if a particular client does not participate in the purchase of one offering, but participates disproportionately in the purchase of another, we do not feel that client has been either advantaged or disadvantaged relative to other clients.

When we trade securities other than open-end mutual funds and Exchange-Traded Funds, Mr. Bricker is the only person authorized to execute those trades. He executes those trades himself and only informs staff members of the trades after they have been completed. In making those trades Mr. Bricker



typically aggregates the trades in a given security at a given brokerage firm on a given day, so that everyone who trades in a given security at a given brokerage firm on a given day does so at the same price.

## **BROKERAGE PRACTICES**

We ask that our clients open brokerage accounts at either Schwab or Fidelity. Over 90% of the brokerage accounts we manage for clients are at Schwab, with the remainder at Fidelity. We typically recommend that new clients open their accounts at Schwab. Although we make these requests and recommendations to our clients, it is ultimately each client's decision to custody assets at a particular brokerage firm or firms. As noted above in the section on ADVISORY BUSINESS, we are independently owned and operated, and not affiliated with any of the brokerage firms that custody our clients' assets.

In general, the trades we initiate in behalf of our clients are executed by the brokerage firm that custodies the assets of the particular client in question. As a consequence, the choice of executing broker on trades is rarely made on a trade-by-trade basis, but is instead effectively made when a client chooses a particular custodian. Similarly, commissions on trades are rarely negotiated on a trade-by-trade basis, but are instead negotiated periodically by us with each of the brokerage firms that custody our clients' assets. As a consequence, we negotiate commissions in behalf of all of our clients whose assets are held at each brokerage firm, not in behalf of each client individually, and not with reference to each specific trade.

Given these circumstances, we don't really focus on the choice of a particular brokerage firm for a particular client transaction, and on the reasonableness of the commission on that transaction; instead, we focus on our recommendation of a particular brokerage firm or firms to custody a client's assets, and on the overall value proposition offered by the firm or firms in the context of a broader relationship with *both us and our clients*. When we refer to the "value proposition", what we mean is the breadth and quality of the services offered by the firm, and the overall cost of doing business with the firm as compared to other firms.

In assessing the relative attractiveness of the overall value proposition offered by different brokerage firms, we may take into account the value of products, research and services the brokerage firms provide to *us*, and not just the nature, cost or quality of custody and brokerage services they provide to our *clients*. For example, most brokerage firms provide products and services that assist advisors in managing and administering client accounts, including software and 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 client accounts; and (v) assist with back-office functions, recordkeeping and client reporting. Most brokerage firms also offer other services intended to help advisors manage and further develop their businesses. These services may include (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Brokerage firms may also make available, arrange and/or pay third-party vendors for these types of services rendered to advisors. They may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services. Finally, they may also provide other benefits such as educational events or occasional business entertainment of advisors' personnel.

In general, these types of products, research and services are available to investment advisors that maintain some minimum level of client assets in custody at a brokerage firm. They are generally not contingent upon an advisor making and maintaining any specific commitment regarding the level of client assets in custody, or the amount of trading commissions. And they are not billed to or paid for out of a “soft dollar” account funded by commissions on client transactions.

To the extent we avail ourselves of these products, research and services it is a tangible benefit to us, in that we do not have to provide or contract for these products, research and services ourselves, at a cost that would come out of our own pocket.

While we acknowledge that our consideration of these factors in recommending brokerage firms to clients might present a conflict of interest between ourselves and our clients, in practice we do not believe it does so. We believe that virtually all our clients benefit, and benefit proportionately (even if only indirectly) from our receipt of virtually all the products, research and services described above. As a consequence, we believe our interests in receiving these products, research and services are largely coincident with those of our clients. Specifically, we do not believe our clients pay higher commissions or incur higher costs for custody and brokerage services than they would otherwise as a result of our receipt of the products, research and services described above.

In recent years we have received discounts on various products by virtue of client assets held in custody at Schwab, and we would like to make clients and prospective clients aware of those. We use a portfolio management program called Portfolio Center and provided by Schwab Performance Technologies, an affiliate of Schwab. We renew our subscription to this program each year as of August 31. For the year beginning August 31, 2011 we received a discount of \$800 on the cost of maintaining our subscription to Portfolio Center. We also use a service for researching mutual funds provided by Morningstar, and we received a discount of roughly \$300 on the cost of maintaining our subscription to that service by virtue of our relationship with Schwab. Again, we do not believe our clients pay higher commissions or incur higher costs for custody and brokerage services that they would otherwise as a result of our receipt of these discounts.

In certain instances we may choose to execute trades “away” from the brokerage firm at which a particular client’s assets are held in custody. These instances are extremely rare, as a percentage of overall trading volume; are limited exclusively to the purchase of municipal bonds; and can only occur when our client has established with their custodian, in writing, a blanket authorization for such trades “away” to occur.

## **REVIEW OF ACCOUNTS**

We review most of our clients’ accounts at least once during each calendar quarter, and try to review all our clients’ accounts at least once during each calendar year. We review client accounts more frequently under special circumstances. These circumstances might include, for example, a client requesting more frequent reviews; a client notifying us of a dramatic change in the client’s circumstances; a dramatic change in the markets for financial assets generally, or in the markets for the assets held in a client’s accounts specifically; or a significant contribution to or withdrawal from a client’s portfolio. These reviews typically involve comparing the allocations within the client’s portfolio to those within the standard target asset allocation to which the client’s portfolio has been referenced, and then addressing any disparities as deemed necessary. Less frequently, and typically in conjunction with the client, we review whether the standard target asset allocation to which the client’s portfolio has been

referenced continues to be the appropriate one. We review our standard target asset allocations on a fairly continuous basis to make sure they embody the risk/return characteristics we desire, and make changes in these target allocations as we deem appropriate in light of current and prospective market conditions. These changes are typically implemented across all the client portfolios referenced to the standard target asset allocation or allocations in question, usually without consulting with each individual client.

All the reviews described above are conducted by Mr. Bricker.

We send our clients written reports on their portfolios quarterly, typically two to four weeks after the end of each calendar quarter. These reports take the form of a package which includes an address sheet, a cover letter, a title page, a table of contents, a market commentary and three reports. The three reports include one labeled "Portfolio Statement", and two labeled "Position Performance Summary".

The Portfolio Statement is a listing of all the assets we manage for the client, typically presented in aggregate, rather than on an account-by-account basis. This report includes each security held and the weight of each security in the client's overall portfolio; the number of shares held in each security; the cost basis of each security, both in absolute dollars and dollars per share; the current value of each security, both in absolute dollars and dollars per share; and the unrealized gain or loss in each security in absolute dollars.

The two Position Performance Summaries cover periods of the trailing three months and twelve months, respectively, and show returns in the client's portfolio. These reports include each security held in the client's portfolio and the market value of each as of the beginning of the period; additions/purchases, withdrawals/sales, realized and unrealized gains and losses and interest and dividend income for each security during the period; the market value of each security as of the end of the period; and the internal rate of return for each security during the period.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

We do not compensate anyone for referring clients to us.

Other than as noted above in the section on BROKERAGE PRACTICES, we do not receive from anyone who is not a client any economic benefit for providing investment advice or other advisory services to our clients. Mr. Bricker is occasionally taken to lunch or dinner or sporting or musical events by representatives of mutual funds that we use or may use in our client portfolios, or by representatives of brokerage firms we use or may use. In these circumstances, or in others that are similar, we do not consider ourselves to be in receipt of "economic benefits" for "providing investment advice or other advisory services" to our clients, as intended under the securities laws.

#### **CUSTODY**

The concept of custody under the securities laws is somewhat complicated. Essentially there are degrees of custody. We have long considered ourselves to have custody of client assets, but only by virtue of our ability to deduct fees from our clients' accounts. We do not hold our clients' assets ourselves, and our clients' assets are not held by any custodian that is not "operationally independent" of SCM.

In light of this circumstance, the securities laws require our clients' assets be held by a "qualified custodian", with certain exceptions. In fact, all our clients' assets are held by qualified custodians, or qualify for one of the exceptions. As a practical matter, and as noted elsewhere in this brochure, the vast majority of our clients' assets are held in custody at either Schwab or Fidelity. As a consequence, those clients whose assets are so held receive monthly statements from Schwab or Fidelity. Clients who receive statements from Schwab or Fidelity should review them carefully.

Also as noted elsewhere in this brochure, we send quarterly reports to our clients which typically include a report we label "Portfolio Statement". In most cases this report aggregates all the assets in all the accounts we manage for the client in question. Some of the information we provide in this report replicates information included in the account statements our clients receive from Schwab or Fidelity, although it is presented in a different format and at a different level of aggregation. To the extent possible, clients should compare the account statements they receive from Schwab or Fidelity with the reports they receive from us. Please refer to the section above on REVIEW OF ACCOUNTS for more information about the reports we provide to our clients.

The assets of our clients that are not held at Schwab or Fidelity generally take the form of interests in limited partnerships or other private investment vehicles. In these cases our clients' interests in these vehicles is typically evidenced only by entries on the books of the general partner or sponsor of the vehicle. We do not serve as the general partner or sponsor of any such vehicles in which our clients invest.

## **INVESTMENT DISCRETION**

In virtually all cases we ask for and receive from our clients discretion to trade in their brokerage accounts. They grant us this authority by signing a Limited Power of Attorney that typically authorizes us to trade in the accounts, receive information regarding balances and transactions in the accounts and deduct fees from the accounts. This power of attorney is "limited" in that it extends only to the powers described above; it is not a "full" power of attorney, in that it does not authorize us to act in all the same ways, and with all the same powers as our clients might. For example, it does not extend to our making transfers to third parties or to related accounts of the client if those accounts are styled differently. As a practical matter, our clients have different preferences regarding the extent to which we communicate with them about activity we initiate in their accounts, and we make every effort to accommodate those preferences.

We typically do not ask for or receive from our clients discretion to deal with sponsors, managers or general partners of limited partnerships or other similar investment vehicles. Our assumption is any such discretion would likely entail authorization to effect redemptions and direct the wiring of funds. If so, we would likely be deemed to have a different level of custody of client funds, which we have sought to avoid.

## **VOTING CLIENT SECURITIES**

As a matter of policy, we disclaim any responsibility for voting client securities. As a matter of practice, we do not vote client securities. If you would like to vote the securities held in your accounts, we can arrange for the brokerage firm that holds your assets to send proxies and other materials directly to you.

**FINANCIAL INFORMATION**

We do not meet any of the securities law criteria that would require us to provide clients any financial information about our firm, and we have never done so.

**REQUIREMENTS FOR STATE-REGISTERED ADVISORS**

We are not registered with any state securities authorities, and so are not subject to securities laws disclosure requirements intended for state-registered advisors.