

PINNACLE ADVISORY GROUP INC.

(Part 2A of Form ADV)

Firm Brochure

6345 Woodside Court Suite 100

Columbia, MD 21046

410-995-6630

410-381-1628

www.pinnacleadvisory.com

compliance@pinnacleadvisory.com

This brochure provides information about the qualifications and business practices of Pinnacle Advisory Group Inc. If you have any questions about the contents of this brochure, please contact us at: 410-995-6630, or by email at: compliance@pinnacleadvisory.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 Pinnacle Advisory Group Inc. is available on the SEC's website at www.adviserinfo.sec.gov

March 20, 2012

Material Changes

Annual Update

There are a few additions and very few modifications for the 2012 update. There has been little change in the business and services for clients.

Material Changes since the Last Update

A material change since the March 2011 filing has been the completion, termination and issuance of final K-1's for Pinnacle Atlantic IV and V. These were the two limited liability companies formed in 2003 and 2004 of which several clients invested funds to develop real estate. The managing member, Chesapeake Capital Partners LLC completed the process and filed final 1065S and K-1's.

. Chesapeake Capital Partners LLC is not affiliated with Pinnacle Advisory Group Inc. or related parties.

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Advisory Business

Firm Description

Pinnacle Advisory Group Inc., (Pinnacle) was founded in 1993 by the three senior partners, John R. Hill, Kenneth R. Solow and Dwight A. Mikulis. Pinnacle Advisory Group, Inc. is a comprehensive wealth management firm which provides continuous investment management and financial planning advice to its affluent individual clients and a small number of institutional clients (e.g. charities, foundations, private company pension plans).

Principal Owners

John R. Hill, Kenneth R. Solow and Dwight A. Mikulis each own approximately 30.5% of the company while Debra C. Kriebel and Rick D. Vollaro each own approximately 3.25% and Michael E. Kitces owns approximately 2%.

Types of Advisory Services

Pinnacle Advisory Group Inc. provides tactical asset allocation/investment management services and financial planning advice for all its individual clients. It provides investment management services alone for its institutional clients and through a wrap investment management program for selected clients of Transamerica Financial Advisors (TFA). We have a separate advisor brochure strictly for clients through TFA that describes investment process, operations and fees involved for clients of TFA. We manage the funds for TFA clients in the same manner as for our institutional clients and receive approximately 50% of the wrap fee charged the client. Pinnacle is also in the process of creating a division to be known as Pinnacle Advisor Solutions where Pinnacle would provide investment management services to other independent registered investment advisors as a sub-advisor to their clients. We anticipate our first client of this service in late Spring 2012.

As of December 31, 2011, Pinnacle Advisory Group Inc. manages approximately \$897 million dollars in assets on a discretionary basis for approximately 710 clients.

Types of Agreements

The following agreements define the typical client relationships.

Investment Management Agreement

Tactical asset allocation which includes the research and selection of securities and discretionary management of client investment accounts is provided to all Pinnacle investment management clients.

The first part of the process is to establish an investment policy statement outlining the client's objectives for the funds, time horizon and tolerance for risk. Then an asset allocation model is chosen that will include various investment vehicles including mutual funds, exchange traded funds, bonds, and money market instruments. Pinnacle currently has 5 asset allocation models defined as portfolio policies. These are: Dynamic Conservative, Dynamic Conservative Growth, Dynamic Moderate Growth, Dynamic Appreciation and Dynamic Ultra Appreciation. Nearly 100% of new clients will have assets invested within one of these models.

Additionally, investment management clients of Pinnacle receive the financial planning advice and service as described under the Financial Planning Agreement section of this document at no additional cost. (Planning advice is covered by the investment management fee schedule.)

The financial planning may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Investment management and financial planning agreements may not be assigned without client consent.

Termination of Agreement

A Client may terminate the Investment Management Agreement at any time by notifying Pinnacle Advisory Group Inc. in writing. (Writing can be by regular mail, fax, and e-mail. Instant message or other services is not permissible.) In the event of termination, where Pinnacle Advisory Group, Inc. has received appropriate written notification, the client will receive a pro-rata refund of that portion of any prepaid advisory fees that have yet to be earned by Pinnacle Advisory Group, Inc.

The portfolio value at the completion of the prior full billing period is used as the basis for the fee computation. Such refund will be calculated from the date of receipt of the written notice or other agreed upon date adjusted for the number of days during the current billing period prior to termination.

Pinnacle Advisory Group Inc. may terminate any of the aforementioned agreements at any time by notifying the client in writing. (Either by regular mail, fax or e-mail.)

Financial Planning Advice

Pinnacle Advisory Group, Inc. is a comprehensive wealth management firm which provides planning services to its clients that can include the review of the client's assets, liabilities, cash flow, insurance and estate documents in preparation for completing a financial plan. A fixed fee of \$5,000 is usually charged to those clients who are only seeking financial planning with no investment management services. Planning fees are somewhat negotiable and the factors affecting the fee would be the size, composition, and complexity of the investments and objectives of the client. In the event of a fixed fee, 50% is payable in advance, with the balance due upon the lesser time period of completion of the planning or 120 days.

A financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary. Any fees collected for start-up expenses will be retained at the discretion of Pinnacle Advisory Group, Inc., as reimbursement for start-up expenses. Agreements may be terminated by either party upon some minimum notice, generally 30 days.

Hourly Planning Engagements

Pinnacle Advisory Group Inc., occasionally provides hourly planning services for clients who need financial planning advice on a limited basis. A standard hourly rate of \$300 is applied. Hourly consulting fees are paid, in advance, at a minimum of 50% of the estimated hours required. The balance is due upon completion of the work. Hourly fee rates are not negotiable.

Past due Accounts and Termination of Agreement

Pinnacle Advisory Group Inc. reserves the right to stop work on any account that is more than 90 days overdue. In addition, Pinnacle Advisory Group Inc. reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in Pinnacle Advisory Group Inc.'s judgment, to providing proper financial advice.

Types of Securities in Client Portfolios

Assets are invested primarily in exchange-traded funds, no-load mutual funds, money markets and other similar public securities traded through four primary custodians/brokerage firms, Charles Schwab & Co. Inc., Fidelity Brokerage Services LLC, TD Ameritrade Inc. and TIAA CREF. These securities represent a variety of asset classes including U.S. -equities, U.S. - fixed income, international equities, international bonds, and unique classes such as commodity futures, international real estate, and emerging markets.

We may also use nontraditional asset classes that utilize various hedge fund strategies.

Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not available through Pinnacle Advisory Group Inc.

Fees and Compensation

Description

Investment management fees are charged on a tri-annual basis, in advance, for these services. Annual fees are prorated for the billing period, and calculated on the assets under management at the time of billing (April, August & December).

Our 2011 schedule for new clients of Pinnacle is:

1.30% for \$0.00-\$500,000 Assets Under Management (AUM),
0.85% for \$500,001-\$1,500,000 AUM,
0.80% for \$1,500,001-\$2,500,000 AUM,
0.75% for \$2,500,001-\$ 3,500,000 AUM,
0.70% for \$3,500,001-\$5,000,000 AUM,
and 0.60% on assets more than \$5,000,001.

Investment management fees paid to Pinnacle Advisory Group. Inc. are generally not negotiable. Example: A client with \$1,000,000 under management would pay \$10,750 on an annual basis or 1.075%. Fee rates decline with more money under management. Clients authorize Pinnacle to deduct advisory fees directly from their brokerage accounts. Clients should be aware of their responsibility to verify the accuracy of the fee amount submitted to the custodian by Pinnacle, as the custodian will not determine whether the fee has been properly calculated. Legacy clients of Pinnacle pay fees as determined by the schedule in place when they became clients.

Other Fees

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

In addition, as a shareholder of a mutual fund, Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. The client will bear a proportionate share of the fund's expenses, including management fees paid to the fund's investment advisor. (See Expense Ratios below)

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. Pinnacle Advisory Group Inc. does not receive any compensation from these custodian/broker dealer transaction fees.

Expense Ratios

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

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

Performance Based Fees and Side-by-Side Management

Pinnacle does not charge performance based fees. We do not have a conflict of interest with side by side management as each pool of investment funds are managed by the same investment team with no favorable allocation of expenses.

Types of Clients

Description

Pinnacle Advisory Group Inc., provides discretionary investment management and financial planning advice to its affluent individual clients and a small number of institutional clients. (Charities, foundations, private company pension plans.)

Account Minimums

The minimum account size is \$750,000 of assets under management. Minimum account size can change in the future.

Accounts of less than \$750,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$750,000 within a reasonable time. Other exceptions could apply to employees of Pinnacle Advisory Group Inc. and their relatives, or relatives of existing clients.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

We use a three-part decision making process that includes evaluating traditional valuation metrics. Some classic measures of valuation include price to earnings (P/E), price to sales (P/S), and price to book (P/B).

Pinnacle also utilizes a Quantitative Model, or “Quant” Model to perform portfolio optimization scenarios that help in assessing valuation. Next Pinnacle uses market cycle analysis to determine whether the economy is expanding or contracting. By determining the current phase of the market cycle Pinnacle can adjust strategy allocations to include or not include specific sectors and asset classes that either outperform or underperform in that specific market environment.

It should be stated that quant models are merely one input into the Pinnacle decision making process.

Investment Strategies

Pinnacle’s money management process is based on our core philosophy of finding value opportunities under all market conditions. Pinnacle employs cycle analysis, traditional fundamental valuation analysis, along with charting and technical measures of market behavior to develop a point of view regarding likely market direction in the short and long term.

We then analyze possible investment opportunities that will allow us to invest our “base case” forecast in a diversified manner. We will also hedge our base case using a variety of different securities so that the entire portfolio meets our risk and reward targets depending on changing market conditions. All portfolios are designed to be globally diversified and portfolio construction is based on both quantitative and qualitative approaches. Our investment process is based on finding value opportunities. We define value in a three-part decision making process that includes evaluating traditional valuation metrics, market cycle analysis, and technical market analysis which results in what we believe is a diversified, well-rounded approach to managing money.

Risk of Loss

Pinnacle's investment service is based on a process that provides two separate kinds of risk management: asset class diversification and traditional value investing strategies. Pinnacle tactically changes the portfolio asset allocation to reflect our views of market value on an ongoing basis. All portfolios are diversified in terms of global asset classes.

Pinnacle has complete discretion in securities chosen, amounts of securities in client accounts and choice of broker dealer to execute trades.

As a value manager a key factor to successfully managing risk is our selling technique, which requires us to constantly reevaluate the value proposition of the securities we hold as prices fluctuate and other opportunities present themselves. This constant monitoring is carried out by an experience investment team in an environment designed to promote the free-flow of ideas.

By utilizing a team approach to the decision making process we feel that we are adding another layer of risk protection in volatile markets. Another added level of risk management is our belief that we should not make extreme asset allocation decisions because we believe that implies 100% certainty in our investment process.

Our additional risk management techniques; studying the market cycle, market valuation, and investor behavior, result in changes to the managed portfolio asset allocation in order to take advantage of current investment opportunities. We call our process for changing the asset allocation of our portfolios Tactical Asset Allocation.

Pinnacle also can utilize hedge transactions, stop loss at the security level, and broad sector rotations based on the perceived threat of a dramatic market decline to try and mitigate risk for clients.

All investing involves a risk of loss and the investment strategy offered by Pinnacle could lose money over short or even long periods. Performance could be hurt by a number of different market risks including but not limited to:

- The identification of securities and other assets believed to be undervalued is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired.
- Stock market risk, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- Sector risk, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market.

- Nondiversification risk, which is the chance that the performance may be hurt disproportionately by the poor performance of relatively few stocks or even a single stock. The Company's investment strategy tends to be considered nondiversified, which means that it may invest a greater percentage of its assets in the securities of particular issuers.

Disciplinary Information

Legal and Disciplinary

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

Other Financial Industry Activities and Affiliations

Affiliations

Pinnacle Advisory Group, Inc. has entered into joint ventures with independent certified public accounting firms to help their clients with investment management. Pinnacle Advisory Group, Inc. has agreed to pay these firms a percentage of the revenue from their client referrals.

Pinnacle Advisory Group, Inc. has agreed not to charge these clients fees or costs greater than the fees or costs Pinnacle Advisory Group, Inc. charges its advisory clients who were not introduced by an accounting firm, and who have similar portfolios under management with Pinnacle Advisory Group, Inc.

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

Code of Ethics

Pinnacle has adopted a Code of Ethics that is predicated on the principle that Pinnacle owes a fiduciary duty to its clients. Accordingly, Pinnacle's employees must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of clients. At all times Pinnacle must place client interests ahead of Pinnacle's. Pinnacle's employees must engage in personal investing that is in full compliance with Pinnacle's Code of Ethics, as well as, with the Federal Securities Laws. Should you wish to review the Code of Ethics maintained at Pinnacle, you may contact Pinnacle at 410-995-6630.

Participation or Interest in Client Transactions

Pinnacle Advisory Group Inc., its employees and related parties may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees must comply with the provisions of the Pinnacle Advisory Group Inc. *Compliance Manual*.

Personal Trading

Personal trading restrictions are covered in Pinnacle Advisory Group compliance manual and the annual compliance meeting. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets. All trade transactions executed by related parties are reviewed and logged quarterly by the Chief Compliance Officer, Dwight A. Mikulis.

Brokerage Practices

Selecting Brokerage Firms

Pinnacle Advisory Group Inc. does not have any affiliation with product sales firms. Pinnacle Advisory Group, Inc. (Pinnacle) will likely suggest that clients use Schwab, Fidelity, TD Ameritrade or TIAA CREF as custodian for client assets.

Pinnacle is independently owned and operated and is not affiliated with Schwab, Fidelity, TD Ameritrade or TIAA CREF. Factors that Pinnacle considers in recommending either Schwab, Fidelity, TD Ameritrade or TIAA CREF or any other broker-dealer to clients, include their respective financial strength, reputation, execution, pricing, research and service. Schwab, Fidelity, TD Ameritrade and TIAA CREF enable Pinnacle to obtain many mutual funds without transaction charges and other securities at nominal transaction charges.

Best Execution

The commissions paid by Pinnacle's clients shall comply with Pinnacle's duty to obtain "best execution". However, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Pinnacle determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determining factor is not the lowest cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer services, including among others, the value of research provided, execution capability and commission rates. It may not necessarily obtain the lowest possible commission rates for the client transaction.

If the client requests Pinnacle to arrange for execution of securities brokerage transactions for the client's account, Pinnacle shall direct such transactions through broker-dealers that Pinnacle reasonably believes will provide best execution. Pinnacle shall periodically and systematically review its policies and procedures regarding recommending broker-dealers to its clients in light of its duty to obtain best execution.

The client may direct Pinnacle in writing to use a particular broker-dealer to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and Pinnacle will not seek better execution services or prices from other broker-dealers or be able to "batch" client transactions for execution through other broker-dealers with orders for other accounts managed by Pinnacle (as described below).

As a result, Pinnacle may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its best execution, Pinnacle may decline a client's request to direct brokerage if, in Pinnacle's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Soft Dollars

The arrangement under which Pinnacle receives any research or services from Schwab, Fidelity, TD Ameritrade or TIAA CREF free of cost is considered a "soft dollar" arrangement under Section 28(e) of the Securities and Exchange Act of 1934. Investment research and brokerage services received through soft dollars may be used by Pinnacle in servicing various clients and not all such services will necessarily benefit all clients. Although the soft dollar allocation from Schwab and Fidelity is based upon the brokerage commissions paid to the custodians, clients are not charged higher commissions as a result of this arrangement.

Schwab, Fidelity, TD Ameritrade and TIAA CREF provide Pinnacle with access to institutional trading and operations services typically not available to retail investors. These services generally are available to independent advisors on an unsolicited basis, at no charge to them as long as a total of at least \$10 million of the advisor's assets are maintained at , Schwab, Fidelity, TD Ameritrade or TIAA CREF and are not otherwise contingent upon Pinnacle committing to Schwab, Fidelity, TD Ameritrade or TIAA CREF any specific amount of business.

Pinnacle may receive from Schwab, Fidelity, TD Ameritrade or TIAA CREF , without cost to Pinnacle, computer software and related systems support, which allow Pinnacle to better monitor client accounts maintained at Schwab, Fidelity, TD Ameritrade or TIAA CREF . Pinnacle may receive software or related support without cost because Pinnacle renders investment management services to clients that maintain assets at Schwab, Fidelity, TD Ameritrade or TIAA CREF .

Specifically, Pinnacle may receive the following benefits from Schwab, Fidelity, TD Ameritrade or TIAA CREF : receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services Registered Investment Advisors; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

Schwab, Fidelity, TD Ameritrade and TIAA CREF also make available to Pinnacle other products and services that benefit Pinnacle and may not benefit its clients' accounts. Some of these other products and services assist Pinnacle in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), that facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), that provide research through such firms as BCA, Bloomberg, Ned Davis Research and Asbury Research, that provide pricing information and market data, facilitate payment of Pinnacle fees from its clients' accounts and assist with back-office support, recordkeeping and client reporting.

Many of these services generally may be used to service all or a substantial number of Pinnacle's accounts, regardless of account value, including accounts not maintained at Schwab, Fidelity, TD Ameritrade or TIAA CREF . Schwab, Fidelity, TD Ameritrade or TIAA CREF may also provide Pinnacle with information and consulting services intended to help Pinnacle manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab, Fidelity, TD Ameritrade or TIAA CREF may make available, arrange and/or pay for these types of services rendered to Pinnacle by independent third parties.

Schwab, Fidelity, TD Ameritrade or TIAA CREF may discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of a third party providing these services to Pinnacle. The availability to Pinnacle of the foregoing products and services is not contingent upon Pinnacle committing to Schwab, Fidelity, TD Ameritrade or TIAA CREF any specific amount of business (assets in custody or trading).

Order Aggregation

Transactions for each client generally will be effected independently, unless Pinnacle decides to purchase or sell the same securities for several clients at approximately the same time. Pinnacle may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates. Pinnacle may (but is not obligated to) allocate equitably among Pinnacle's clients any differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed

independently. Under this procedure, transactions will generally be averaged as to price and allocated among Pinnacle's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Pinnacle determines to aggregate client orders for the purchase or sale of securities, including securities in which Pinnacle's Advisory Affiliate(s) may invest, Pinnacle shall generally do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U. S. Securities and Exchange Commission.

Pinnacle shall not receive any additional compensation or remuneration as result of the aggregation. In the event that Pinnacle determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when small percentage of the order is executed, shares may be allocated to the account with the smallest position or to an account that is out of line with respect to security to sector weightings relative to other portfolios, with small mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro-rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Pinnacle may exclude the accounts(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Review of Accounts

Periodic Reviews

Investment security reviews are performed daily by the trading staff as part of the Investment Team. Portfolio allocations and trades are reviewed in the weekly Investment Team meeting and communicated monthly in a formal Investment Committee meeting attended by all the Wealth Managers (Client Advisors) in person or via internet capability.

Review Triggers

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

Regular Reports

Wealth Managers (Client Advisors) are members of the firm's Investment Committee and are instructed to consider the client's portfolio and portfolio policy and the likelihood that the performance of the portfolio will contribute to the investment objectives of the client.

Clients receive updated performance reports for their portfolios three times a year and also upon request. They also receive monthly investment updates and have access to daily blogs by the Investment Team. Clients also receive quarterly market reviews produced by the Investment Team.

Additionally, clients have access to account information and performance reports daily through the websites of the two main custodians, Charles Schwab Inc and Fidelity Institutional Wealth Services.

Client Referrals and Other Compensation

Incoming Referrals

Pinnacle Advisory Group Inc. has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm also participates in programs from both custodians, Charles Schwab Inc. and Fidelity Institutional Wealth Services. The following information is required by our custodians although it is very detailed:

Pinnacle Advisory Group, Inc. receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through Pinnacle Advisory Group, Inc.'s participation in Schwab Advisor Network ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with Pinnacle Advisory Group, Inc. Schwab does not supervise Pinnacle Advisory Group, Inc. and has no responsibility for Pinnacle Advisory Group, Inc.'s management of clients' portfolios or Pinnacle Advisory Group, Inc.'s other advice or services. Pinnacle Advisory Group, Inc. pays Schwab fees to receive referrals through the Service. Pinnacle Advisory Group, Inc.'s participation in the Service may raise potential conflicts of interest described below.

Pinnacle Advisory Group, Inc. pays Schwab a Participation Fee on all referred client's accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by Pinnacle Advisory Group, Inc. is a percentage of the fees the client owes to Pinnacle Advisory Group, Inc. or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee.

Pinnacle Advisory Group, Inc. pays Schwab the Participation Fee for so long as the referred client's account remains at Schwab. The Participation Fee is billed to Pinnacle Advisory Group, Inc. quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Pinnacle Advisory Group, Inc. and not by the client. Pinnacle Advisory Group, Inc. has agreed not to charge clients referred through the Service, fees or costs greater than the fees or costs Pinnacle Advisory Group, Inc. charges clients with similar portfolios who were not referred through the Service.

Pinnacle Advisory Group, Inc. generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Pinnacle Advisory Group, Inc. generally would pay in a single year. Thus, Pinnacle Advisory Group, Inc. will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Pinnacle Advisory Group, Inc.'s clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Pinnacle Advisory Group, Inc. will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts at Schwab.

For accounts of Pinnacle Advisory Group, Inc.'s clients maintained in custody at Schwab, Schwab generally does not charge the client separately for custody but receives compensation from Pinnacle Advisory Group, Inc.'s clients in the form of commissions or other transaction-related compensation on securities trades Schwab executes for the client's accounts. Clients also pay Schwab a fee for clearance and settlement of trades executed through broker dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer fees. Thus, Pinnacle Advisory Group, Inc. may have an incentive to cause trades to be executed through Schwab rather than another broker. Pinnacle Advisory Group, Inc. nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for clients' accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Pinnacle Advisory Group, Inc.'s other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Pinnacle Advisory Group, Inc. receives client referrals from Fidelity Investments ("Fidelity") through Pinnacle Advisory Group, Inc.'s participation in Fidelity Institutional Wealth Services program, which is designed to help investors find an independent investment advisor. At this time, Pinnacle does not compensate Fidelity for these referrals. Fidelity is a broker-dealer independent of, and unaffiliated with, Pinnacle Advisory Group, Inc. Fidelity does not supervise Pinnacle Advisory Group, Inc. and has no responsibility for Pinnacle Advisory Group, Inc.'s management of clients' portfolios or Pinnacle Advisory Group, Inc.'s other advice or services.

For accounts of Pinnacle Advisory Group, Inc.'s clients maintained in custody at Fidelity Investments, Fidelity generally does not charge the client separately for custody but receives compensation from Pinnacle Advisory Group, Inc.'s clients in the form of commissions or other transaction-related compensation on securities trades Fidelity executes for the client's accounts. Clients also pay Fidelity a fee for clearance and settlement of trades executed through broker dealers other than Fidelity. Fidelity's fees for trades executed at other broker-dealers are in addition to the other broker-dealer fees.

Thus, Pinnacle Advisory Group, Inc. may have an incentive to cause trades to be executed through Fidelity rather than another broker. Pinnacle Advisory Group, Inc. nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for clients' accounts held in custody at Fidelity may be executed through a different broker-dealer than trades for Pinnacle Advisory Group, Inc.'s other clients. Thus, trades for accounts custodied at Fidelity may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Pinnacle Advisory Group, Inc. does not receive client referrals from, and has not entered into a referral program with TD Ameritrade or TIAA CREF. TD Ameritrade and TIAA CREF are broker-dealers independent of and unaffiliated with Pinnacle Advisory Group, Inc. and have no responsibility for Pinnacle Advisory Group, Inc.'s management of clients' portfolios or Pinnacle Advisory Group, Inc.'s other advice or services.

For accounts of Pinnacle Advisory Group, Inc.'s clients maintained in custody at TD Ameritrade or TIAA CREF generally does not charge the client separately for custody but receives compensation from Pinnacle Advisory Group, Inc.'s clients in the form of commissions or other transaction-related compensation on securities trades. TD Ameritrade or TIAA CREF executes for the client's accounts. Clients also pay TD Ameritrade or TIAA CREF a fee for clearance and settlement of trades executed through broker dealers other than TD Ameritrade or TIAA CREF. TD Ameritrade and TIAA CREF's fees for trades executed at other broker-dealers are in addition to the other broker-dealer fees. Thus, Pinnacle Advisory Group, Inc. may have an incentive to cause trades to be executed through TD Ameritrade or TIAA CREF rather than another broker. Pinnacle Advisory Group, Inc. nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for clients' accounts held in custody at TD Ameritrade or TIAA CREF may be executed through a different broker-dealer than trades for Pinnacle Advisory Group, Inc.'s clients. Thus, trades for accounts custodied at TD Ameritrade or TIAA CREF may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Pinnacle Advisory Group, Inc. has entered into joint ventures with independent certified public accounting firms to help their clients with investment management. Pinnacle Advisory Group, Inc. has agreed to pay these firms a percentage of the revenue from their client referrals. Pinnacle Advisory Group, Inc. has agreed not to charge these clients fees or costs greater than the fees or costs Pinnacle Advisory Group, Inc. charges its advisory clients who were not introduced by an accounting firm, and who have similar portfolios under management with Pinnacle Advisory Group, Inc.

Pinnacle also maintains a relationship with Transamerica Financial Advisors (TFA), an investment advisor, whereby TFA refers clients to Pinnacle who are seeking investment management services. TFA referred clients pay advisory fees that cover Pinnacle's fees, as well as, those fees paid to TFA. The portion of the fee retained by Pinnacle is less than the fee Pinnacle generally charges its clients for investment management services. The total advisory fee paid by TFA referred clients generally will be higher than the advisory fee charged by Pinnacle to its other clients.

In general, the annual advisory fee paid by TFA referred clients will be greater than the annual advisory fee paid by Pinnacle's other clients by the following amounts: 0.90% for accounts valued at \$500,000 or less, 0.85% for accounts valued at greater than \$500,000 to \$1 million, 0.35% for accounts valued at greater than \$1 million to \$1.5 million, 0.40% for accounts valued at greater than \$1.5 million through \$2.5 million, 0.45% for accounts valued at greater than \$2.5 million through \$3.5 million, 0.50% for accounts valued at greater than \$3.5 million through \$5 million, and 0.60% for accounts valued at greater than \$5 million. Fees paid by TFA referred clients are due at the month end following the initial funding, then monthly going forward.

Referrals Out

Pinnacle Advisory Group Inc. does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Other Compensation

None

Custody

Account Statements

All clients' accounts are held in custody by unaffiliated broker/dealers but Pinnacle can access clients' accounts through our ability to debit advisory fees. Therefore, the SEC considers Pinnacle to have "deemed custody" of client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review and compare these statements to any account information and reports provided by Pinnacle.

Net Worth Statements

Clients are frequently provided net worth statements and net worth graphs that are generated from our financial planning software. Net worth statements contain approximations of bank account balances provided by the client, as well as the value of land and hard-to-price real estate. The net worth statements are used for long-term financial planning where the exact values of assets are not material to the financial planning tasks.

Investment Discretion

Discretionary Authority for Trading

Pinnacle Advisory Group Inc. accepts discretionary authority to manage securities accounts on behalf of clients. Pinnacle Advisory Group Inc. has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

Pinnacle Advisory Group Inc. does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing through a limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades in all discretionary client accounts.

Voting Client Securities

Proxy Votes

Pinnacle's clients shall maintain all proxy voting authority over securities managed by Pinnacle. Pinnacle clients will receive their proxy notices and solicitations directly from the custodian or transfer agent. On rare occasions, Pinnacle may share its thoughts regarding a proxy vote, if it deems such communication beneficial to assisting its clients. Clients can contact us directly at 410-995-6630 regarding any question about proxies.

Financial Information

Financial Condition

Pinnacle Advisory Group Inc. does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

Business Continuity Plan

General

Pinnacle Advisory Group Inc. has a Disaster Recovery Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

Disasters

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

Alternate Offices

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

Loss of Key Personnel

Pinnacle Advisory Group Inc. has several layers of management including the Management Team and Executive Team. It also maintains \$1,000,000 each of life insurance on its three senior partners. All the partners are subject to a stockholders agreement that limits the ownership and transferability of Pinnacle Advisory Group Inc. stock.

Information Security Program

Information Security

Pinnacle Advisory Group Inc. maintains an information security program to reduce the risk that your personal and confidential information may be breached.

Privacy Notice

Pinnacle Advisory Group Inc. is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

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

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

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

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

We will notify you in advance if our privacy policy is expected to change. We are required by law to provide this *Privacy Notice* to you annually, in writing and this is typically received via e-mail or in client security vaults on-line.