

PARAGON

ASSET MANAGEMENT INC

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Form ADV Part 2A

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Paragon Asset Management, Inc.

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The information contained herein is provided to clients and prospective clients in accordance with Form ADV, Part II, Uniform Application for Investment Advisor Registration (SEC File number 801-56915).

This brochure provides information about the qualifications and business practices of Paragon Asset Management, Inc. If you have any questions about the contents of this document, please contact us at 510-550-7288 or info@paragonam.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. Registration does not imply a certain level of skill or training; it means that we are registered with the California Department of Corporations.

Material Changes

As of 2012, Paragon Asset Management, Inc. is registered with the California Department of Corporations as an investment advisor.

Previously, the company was registered with the U.S. Securities and Exchange Commission.

Advisory Business

Paragon Asset Management, Inc. provides personalized portfolio design, mutual fund analysis, and active portfolio management services and strives to maintain well defined and wide-ranging asset allocation plans tailored to each client. Paragon was established in 1992 by Eugene Chow, who is the sole shareholder of the company.

Paragon primarily provides discretionary investment supervisory services. However, we also manage investment advisory accounts that do not involve supervisory services and provide investment advice through consultations that are separate from the latter two services. We do not call these services financial planning.

Paragon offers investment advice on equity securities, including exchange-listed securities, securities traded over-the-counter, and foreign issuers. In addition, we offer advice on warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, mutual fund shares, United States government securities, options contracts on securities, and futures contracts on intangibles. Our advice is limited to these kinds of investments.

We tailor our advisory services to the individual needs of clients by weighing risk and return. By

creating diversified portfolios across many market sectors and world economies, we strive to reduce risk for our clients. We use fundamental and technical methods to analyze securities, using information from financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, and annual reports, prospectuses, and filings with the Securities and Exchange Commission. In order to implement the investment advice we give to clients, we may use long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days), margin transactions, and option writing, including covered options, uncovered options or spreading strategies.

Paragon currently manages approximately \$40.2 million in discretionary accounts as of the end of 2011.

Fees and Compensation

Paragon Asset Management, Inc. is compensated based on a percentage of month-end portfolio market value. Fees are negotiable. A representative fee schedule is as follows:

Market Value	Annual Management Fee
Less than \$500,000	1.00% (\$2,500 minimum)
\$500,000-1,000,000	\$5,000 + 0.75% of amount over \$500,000
\$1,000,000-2,000,000	\$8,750 + 0.50% of amount over \$1,000,000
More than \$2,000,000	\$13,750 + 0.35% of amount over \$2,000,000

Fees are billed quarterly after the quarter ends. Clients may choose to have fees deducted from managed accounts or to pay the fees separately.

If management services are terminated by either the adviser or the client upon thirty day, or other mutually agreed upon notice period, fees will be prorated to the termination date.

When providing mutual fund evaluation services to corporate pension plans, fixed fees are dependent on the services required and are billed on an annual basis.

Clients may pay additional expenses in connection with our advisory services. When client funds are invested in mutual funds, our management fees are in addition to advisory fees charged by the mutual funds. Clients may incur brokerage and other transaction costs, depending on the investment type.

Performance-Based Fees and Side-By-Side Management

Not applicable.

Types of Clients

Paragon Asset Management, Inc. generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities. Paragon generally imposes a minimum dollar value of assets of \$250,000 for new clients.

Methods of Analysis, Investment Strategies and Risk of Loss

Paragon Asset Management, Inc. uses fundamental and technical security analysis methods to formulate investment advice. This advice is implemented using strategies including long-term purchases, short-term purchases, trading, margin transactions, and option writing (including covered options, uncovered options or spreading strategies). When investing in securities, clients are at risk for losses they should be prepared to bear.

Our investment strategy uses broad diversification at the security and asset class levels to minimize investment risk. If markets for these securities move synchronously, diversification will not be sufficient to protect against adverse market movements and client portfolios can lose significant value.

We primarily recommend open-end mutual funds and exchange traded funds for investment. Open-end mutual funds trade once a day at the close. In adverse markets, we will not be able to close out mutual fund positions until the end of a trading day.

While we strive to use only exchange traded funds that are very liquid, adverse market conditions may lead to situations where the exchange traded funds become difficult to trade or the bid-ask spread becomes very wide, making them expensive to trade.

Disciplinary Information

Not applicable.

Other Financial Industry Activities and Affiliations

Not applicable.

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

Paragon's code of ethics emphasizes our fiduciary responsibility to our clients. This means that in all of our actions on behalf of our clients, the financial interests of our clients always takes precedence over Paragon's financial interests. A written copy of Paragon's code of ethics is available on request.

We use the same investment strategies and investment vehicles for our personal accounts as we do for client accounts. As a result, we invest in the same securities in our personal accounts as we do for our client accounts. We only invest in large funds and our personal investments make no significant impact on the prices of these investments. If there is a possibility that our personal investments could make a material difference to client accounts, we will avoid making those investments in personal accounts.

Our investments for clients are principally in open-end mutual funds and exchange traded funds. Open-end mutual funds trade once a day at a price shared by all buyers and sellers. When we transact in these securities, we always get the same price as our clients. When we make transactions in exchange traded funds, we group all purchases or sales of each fund for clients and personal accounts together and make one transaction at a common price and then allocate the securities to each account.

Brokerage Practices

Paragon requires that clients establish brokerage accounts with broker-dealers or other custodians to maintain custody of clients' assets and to effect trades for their accounts. Paragon is independently owned and operated and not affiliated with any broker-dealers. Paragon may receive access to the broker-dealers' institutional trading and custody services, which are typically not available to retail clients of these broker-dealers. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them and may be contingent upon advisors maintaining a minimum level of client assets at the broker-dealer, but not a minimum volume of trading. Broker-dealer services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For Paragon's client accounts maintained at broker-dealers, the broker-dealer generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through the broker-dealer or that settle into broker-dealer accounts.

Broker-dealers may also make available to Paragon other products and services that benefit Paragon but may not directly benefit its clients' accounts. Some of these other products and services assist Paragon 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); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data, facilitate payment of Paragon's fees from its clients' accounts; and assist with back-office functions, record-keeping and client reporting. Many of these services generally may be used to service all or a substantial number of other services intended to help Paragon 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, broker-dealers may make available, arrange and/or pay for these types of services rendered to Paragon by independent third parties. Broker-dealers may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to paragon. While as a fiduciary, Paragon endeavors to act in its clients' best interests, Paragon's requirement that clients maintain their assets in accounts at certain broker-dealers may be based in part on the benefit to Paragon of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by these broker-dealers, which may create a potential conflict of interest.

Paragon does not engage in soft dollar practices in which the company would receive research or

other products and services in connection with client securities transactions. Paragon also does not select or recommend broker-dealers in return for client referrals from broker-dealers. Paragon does not routinely recommend, request or require clients to direct transactions to a specified broker-dealer.

Review of Accounts

All accounts are reviewed monthly with a detailed review quarterly by Eugene Chow. Mr. Chow is the President and portfolio manager for Paragon Asset Management, Inc.

Paragon reviews client accounts on a monthly basis, but may review more frequently based on client need.

Clients receive monthly written reports of transactions and holdings directly from their custodian/broker-dealer. Account performance and billing information is reported quarterly by us.

Client Referrals and Other Compensation

Paragon is compensated solely by management fees and does not receive any other type of compensation such as commission or referral fees.

Paragon may have agreements with outside solicitors who solicit management clients on our behalf in return for solicitation fees. These solicitors meet the qualifications described in Section 203 of the Advisers Act of 1940 and have formal solicitation contracts with us. The solicited clients are provided with disclosure documents in compliance with Rule 206 (4)-3 under the Advisers Act.

Custody

Paragon has does not maintain custody of client funds or securities. For clients who give us permission, we can deduct management fees from their accounts. Clients receive monthly reports from their custodian/broker-dealer and should carefully review these statements.

Investment Discretion

Paragon uses limited power of attorney to make discretionary decisions regarding client accounts and to execute trades on behalf of clients.

Without obtaining client consent on specific trades, Paragon has the authority to determine securities to be bought or sold, the amount of the securities to be bought or sold, the broker or dealer to be used, and the commission rates.

Voting Client Securities

Paragon does not have authority to vote client securities. Clients generally receive proxies and other solicitations directly from their custodian/broker-dealer. Clients with questions can receive advice from Paragon regarding voting their shares.

**Eugene Chow, CFA**

Eugene Chow holds a BS degree in electrical engineering and computer science from the University of California, Berkeley as well as an MBA degree in finance, also from the University of California, Berkeley.

Mr. Chow is a chartered financial analyst. This is a professional designation administered by the CFA Institute. The designation requires a minimum of four years of qualified investment work experience, a pledge to adhere to The CFA Institute code of ethics and standards of professional conduct on an annual basis and passage through the CFA Program. The CFA Program is organized into three levels, each culminating in a six-hour exam. Completing the Program takes most candidates between two and five years.

Mr. Chow has been President and Chief Investment Officer for Paragon Asset Management, Inc. since 1992. Prior to that, he was the President of the Investment Management Division of Robert C. Brown & Co., Inc. He was born in 1956.

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This brochure supplement provides information about Eugene Chow that supplements the Paragon Asset Management, Inc. brochure. You should have received a copy of that brochure. Please contact Paragon Asset Management, Inc. if you did not receive a brochure or if you have any questions about the contents of this supplement.