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**MARCH 23, 2012**

**FORM ADV PART 2A  
BROCHURE**

This brochure provides information about the qualifications and business practices of Keene and Associates, Inc. If you have any questions about the contents of this brochure, please contact us at (817) 336-4500 or [jkeene@keeneassociates.com](mailto:jkeene@keeneassociates.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 Keene and Associates, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Keene and Associates, Inc. is 107961.

Keene and Associates, Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

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## **Advisory Business**

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### **Description of Services and Fees**

Keene and Associates, Inc. (also known as Keene and Associates) is a registered investment adviser based in Fort Worth, Texas. We are organized as a corporation under the laws of the State of Texas. Since 1994, Keene and Associates has provided discretionary and non-discretionary, fee-only investment management services to individuals, trusts, banking or thrift institutions, pension and profit sharing plans, non-profit and charitable organizations, corporations, and other business entities. The firm selects stocks that are believed to be undervalued. Accounts under \$250,000 are invested using no-load mutual funds. John Keene, President and Chief Executive Officer, is our principal owner. Currently, we offer the following investment advisory services, which are personalized to each individual client:

- **Portfolio Management Services**
- **Pension Consulting Services**

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this brochure, the words “we,” “our” and “us” refer to Keene and Associates, Inc. and the words “you,” “your” and “client” refer to you as either a client or prospective client of our firm. In addition, you may see the term Associated Person throughout this brochure. As used in this brochure, our Associated Persons are our firm’s officers, employees, and all individuals providing investment advice on behalf of our firm.

### ***Portfolio Management Services***

We offer discretionary and non-discretionary portfolio management services. Our investment advice is tailored to meet our clients’ needs and investment objectives. If you retain our firm for portfolio management services, we will meet with you to determine your investment objectives, risk tolerance, and other relevant information (the “suitability information”) at the beginning of our advisory relationship. We will use the suitability information we gather to develop a strategy that enables our firm to give you continuous and focused investment advice and/or to make investments on your behalf. As part of our portfolio management services, we may customize an investment portfolio for you in accordance with your risk tolerance and investing objectives. We may also invest your assets using a predefined strategy, or we may invest your assets according to one or more model portfolios developed by our firm. Once we construct an investment portfolio for you, or select a model portfolio, we will monitor your portfolio’s performance on an ongoing basis, and will rebalance the portfolio as required by changes in market conditions and in your financial circumstances.

The firm offers investment advisory services for institutions and individuals on a discretionary basis. Client requests for nondiscretionary investment advisory services will be considered by the management of the firm on a case by case basis.

If you participate in our discretionary portfolio management services, we require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm, a power of attorney, or trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines in writing. If you enter into non-discretionary arrangements with our firm, we must obtain your approval prior to executing any transactions on behalf of your account.

Our fee for portfolio management services is based on a percentage of your assets we manage and is set forth in the following fee schedule:

<b>Assets Under Management</b>	<b>Annual Fee *</b>
Amounts less than \$1,000,000	1.00%
Amounts greater than \$1,000,000, but less than \$3,000,000	0.75%
Amounts greater than \$3,000,000, but less than \$5,000,000	.50%
Amounts greater than \$5,000,000	negotiable

\* We charge a minimum fee, per account, of \$625 per quarter.

Our annual portfolio management fee is billed in arrears and payable at the end of each calendar quarter based on the average ending portfolio value for each month of the quarter.

If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. Our advisory fee is negotiable, depending on individual client circumstances.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee based on the available breakpoints in our fee schedule stated above.

We will send you an invoice for the payment of our advisory fee, or we will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy. We will also receive a duplicate copy of your account statements.

You may terminate the portfolio management agreement upon 30 days' written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client.

A portion of the compensation that Keene pays to its officers may be based on the fees generated by clients referred to the firm. The firm's compensation structure for its officers has no impact on the level of fees paid by clients.

We encourage you to reconcile our invoices with the statement(s) you receive from the qualified custodian. If you find any inconsistent information between our invoice and the statement(s) you receive from the qualified custodian, please call our main office number located on the cover page of this brochure.

### ***Pension Consulting Services***

The firm provides investment advisory services to plan sponsors and plan trustees. This is primarily comprised of the selection and monitoring of mutual funds for 401(k) and other defined contribution plans. Services may include the development and monitoring of model investment portfolios. The firm will provide a fee quote to the client, based on the services to be provided. The firm provides consultation services to clients whose needs cannot be met by normal advisory services described above. In these instances, consulting services will be provided at the rate of \$150 per hour.

These pension consulting services will generally be non-discretionary and advisory in nature. The ultimate decision to act on behalf of the plan shall remain with the plan sponsor or other named fiduciary. Either party to the pension consulting agreement may terminate the agreement upon 30 days' written notice to the other party. The pension consulting fees will be prorated for the quarter in which the termination notice is given and any unearned fees will be refunded to the client. The firm does not provide actuarial services.

### **Types of Investments**

We primarily offer advice on equity securities, corporate debt and/or municipal securities (bonds), and mutual funds. Additionally, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship. Generally, accounts under \$250,000 are invested using no-load mutual funds.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these instructions and any restrictions on account activity to our firm in writing.

### **Assets Under Management**

As of December 31, 2011, we manage \$117,225,482 in client assets on a discretionary basis, and \$178,442,550 in client assets on a non-discretionary basis.

## ***Fees and Compensation***

Form ADV Part 2A, Item 5

Please refer to the “Advisory Business” section in this brochure for information on our advisory fees, fee deduction arrangements, and refund policy according to each service we offer.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in stocks, bonds, mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by the clearing broker on stock and bond trades or fees charged by mutual funds or exchange traded funds (described in each fund’s prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the “Brokerage Practices” section of this brochure.

## ***Performance-Based Fees and Side-By-Side Management***

Form ADV Part 2A, Item 6

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client’s account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged based on a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

## ***Types of Clients***

Form ADV Part 2A, Item 7

We offer investment advisory services to individuals, trusts, banking or thrift institutions, pension and profit sharing plans, non-profit and charitable organizations, corporations, and other business entities.

In general, we require a minimum of \$250,000 to open and maintain an advisory account. At our discretion, we may waive this minimum account size.

## ***Methods of Analysis, Investment Strategies and Risk of Loss***

Form ADV Part 2A, Item 8

### **Our Methods of Analysis and Investment Strategies**

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

- **Fundamental Analysis** – involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value. The risk of fundamental analysis is that information obtained may be incorrect, and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.
- **Long Term Purchases** – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year. Long-term purchases may be affected by unforeseen long-term changes in the company in which you are invested or in the overall market.
- **Short Term Purchases** – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations. We may use strategy occasionally when we determine that it is suitable given your stated investment objectives and tolerance for risk.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

Generally, we analyze financial statements to identify stocks that appear to be undervalued by the market. This strategy is subject to the following risks:

- the analysis may be based on financial information that later proves to be inaccurate;
- unpredictable future events and trends may adversely impact the value of the stock; and/or,
- in times of extreme market volatility, holding undervalued securities may not lessen risk.

Our strategy does not involve market timing.

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

Moreover, as a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the FIFO (First-In First-Out) accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

### **Recommendation of Particular Types of Securities**

As disclosed under the "Advisory Business" section in this brochure, we primarily recommend the use of equity securities (stocks), corporate debt and/or municipal securities (bonds), and mutual funds. You should be advised of the following risks when investing in these types of securities:

The primary risks of owning stocks are as follows:

- Unforeseen trends or events may adversely impact the company, reducing the value of the stock.
- The strategy of holding undervalued stocks may not lessen the risk of owning stocks during an extreme market downturn.
- The trading volume of an individual stock may decline significantly, making the purchase or sale of the stock more difficult.

The primary risks of owning bonds are as follows:

- Default risk: The risk that the issuer may not be able to pay principal and interest as it becomes due.
- Interest rate risk – The risk that interest rates rise, causing the market value of the bond to decline.
- Purchasing power risk – During an inflationary period, the fixed interest payments from bonds will not protect purchasing power.

The primary risks of owning mutual funds are as follows:

- A mutual fund manager with above-average performance may revert to below average performance.
- A mutual fund manager may take excessive risks to maintain above-average performance.
- A mutual fund may grow too large to maintain above-average performance.
- Layering of fees (i.e. mutual fund management fees and investment advisory fees) reduces returns.

### ***Disciplinary Information***

No reportable information.

Form ADV Part 2A, Item 9



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

Form ADV Part 2A, Item 10

We have not provided information on other financial industry activities and affiliations because we do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships

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

Form ADV Part 2A, Item 11

### **Description of Our Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

### **Participation or Interest in Client Transactions**

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. A conflict of interest may arise in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive.

To address this potential conflict of interest, the firm's Code of Ethics and its Policies and Supervisory Procedures Manual include policies and procedures that govern personal securities trades by its employees and related parties. Employees must receive prior approval for opening a personal securities account and must report securities transactions to the firm's Chief Compliance Officer on a quarterly basis. Prior to making a securities trade, an employee must clear the trade with the Chief Compliance Officer. Employees may not trade in a security on the same day in which a client trade in the same security is transacted (excluding trades for which the employee does not control the timing of the transaction). The Chief Compliance Officer reviews the trades of employees and related parties and takes other actions to detect violations of the firm's Code of Ethics and policies and procedures related to personal trades.

### ***Brokerage Practices***

Form ADV Part 2A, Item 12

We do not maintain physical custody of your assets that we manage; although we are deemed to have custody of your assets if you give us authority to withdraw assets from your account (see *Item 15 – Custody*, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Charles Schwab and Co., Inc. (“Schwab”), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when instructed to. While we recommend that you use Schwab as custodian, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see “*Your Brokerage and Custody Costs*”).

### ***How We Select Brokers/Custodians***

We seek to select a broker/custodian who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Breadth of available investment products (stocks, bonds, mutual funds, ETFs, etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.)
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see “*Products and Services Available to Us From Schwab*”)

### ***Your Brokerage and Custody Costs***

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Schwab’s commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$10,000,000 of their assets in accounts at Schwab. This commitment benefits you because the overall commission rates you pay are lower than they would be otherwise. In addition to commissions, Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “*How We Select Brokers/Custodians*”).

### ***Products and Services Available to Us From Schwab***

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab’s business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while others help us manage and grow our business. Schwab’s support services generally are available on an unsolicited basis (we don’t have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab’s support services:

### ***Services That Benefit You***

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

### ***Services That May Not Directly Benefit You***

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

### ***Services That Generally Benefit Only Us***

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We do not have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. The \$10 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "*How We Select Brokers/Custodians*") and not Schwab's services that benefit only us.

### **Brokerage for Client Referrals**

In the past, our firm has received client referrals from Schwab through our participation in Schwab Advisor Network™ (the "Service"). We no longer receive client referrals from Schwab. However, current clients previously referred to us by Schwab during our participation in the Service are subject to the terms of continuing fee arrangements.

As discussed above, we are not affiliated with Schwab and we are independently owned. There is no employee or agency relationship between Schwab and our firm. Schwab established the referral program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services to independent investment advisers. Schwab does not supervise our firm and has no responsibility for the management of your portfolios or other advice or services we offer. Our firm continues to pay Schwab a fee on client accounts that were established while we participated in the Service and that are still in custody with Schwab (the "Participation Fee"). The Participation Fee paid by our firm is a percentage of the fees our client owes to us or a percentage of the value of the assets in the client's account, subject to a minimum. We pay Schwab the Participation Fee as long as the referred client's account remains in custody with Schwab. The Participation Fee is paid by our firm and not by our clients. We do not charge clients referred to us through the Service fees greater than the fees we charge clients with similar portfolios who were not referred to us through the Service.

For client accounts that were established during our participation in the Service, we pay Schwab an additional fee if custody of a referred client's account is not maintained by, or is transferred from, Schwab (the "Custody Fee"). The Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. It does not apply if the client is solely responsible for the decision not to maintain custody at Schwab. The Custody Fee is generally higher than the Participation Fee that our firm would pay on an account annually. This raises a conflict of interest, since our firm has an incentive to recommend to our clients that accounts established while we participated in the Service continue to be held in custody at Schwab.

### **Soft Dollar Benefits**

We use soft dollar benefits to service all client accounts. Because such benefits could be considered to provide a benefit to our firm, we may have a conflict of interest in directing your brokerage business. We could receive benefits by selecting a particular broker-dealer to execute your transactions, and the transaction compensation charged by that broker-dealer might not be the lowest compensation we might otherwise be able to negotiate.

Pursuant to Section 28(e) of the Securities Exchange Act of 1934, we may select brokerage firms who charge commissions in excess of the lowest available commission in recognition of the value of research products or services provided by the brokerage firm to us. Research furnished by brokerage firms may be used by us in servicing all client accounts and may not necessarily be used in connection with the client accounts that paid commissions to the brokerage firms providing the research. Research products and services primarily include access to proprietary or third party research provided by the brokerage firm.

Most of our clients' assets are held at Schwab. Schwab provides us with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. Schwab's brokerage services include the execution of securities transactions, 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 our client accounts held at Schwab, Schwab generally does not charge separately for custody services, but is compensated by account holders through commissions and other transaction related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab's products and services that assist us in managing and administering clients' accounts include software and other technology that (1) provide access to client account data, (2) facilitate trade execution and allocate aggregate trade orders for multiple accounts, (3) provide research, pricing and other market data, (4) facilitate payment of our fees from its clients' accounts, and (5) assist with back-office functions, recordkeeping and client reporting. Schwab Institutional also offers other services intended to help use manage and further develop its business enterprise, including compliance/legal consulting, publications/conferences on practice management and business succession, and access to employee benefit providers, human capital consultants, and insurance providers. In evaluating whether to recommend that clients custody their assets at Schwab, We may take into account the availability of some of the foregoing products and services and other arrangements as past of the total mix of factors it considers and not solely the nature, cost, or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

### **Directed Brokerage**

In limited circumstances, and at our discretion, some clients may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on your behalf. This practice may also prevent our firm from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

### **Block Trades**

We may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs.

We may combine multiple orders for shares of the same securities purchased for discretionary accounts; however, it may not be possible to include orders for non-discretionary accounts in block trades. In the event we do not block trade transactions, you may pay different prices for the same securities transactions than other clients pay. Furthermore, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than if transactions were block traded.

## **Review of Accounts**

Form ADV Part 2A, Item 13

Accounts are reviewed on a continuous and regular basis regarding the suitability of securities held in the account. Specific securities held are monitored and evaluated on a continuing basis for consistency with long-term client objectives. Triggering factors include, but are not limited to, changes in macro economic variables, industry conditions, company specific news, or client specific risk and return profiles/expectations.

Reviewers are officers of the firm as follows:

John Keene - President & Chief Investment Officer

Barry Richardson - Vice President & Chief Compliance Officer

All accounts are reviewed by one or more of the firm's officers as listed above. The number of accounts assigned will be commensurate with the highest standards of prudence and care in the delivery of investment management services. The firm requires that anyone involved in determining or giving investment advice to clients have a college degree.

Quarterly written reports, which include the account's asset allocation objective, asset mix summary, short and long-term performance results, and a list of assets, will be provided within 30 days of the quarter month end. Each report will contain a cover letter discussing pertinent investment issues for the most recent quarter. Periodic meetings with each client are encouraged, with the frequency to be determined by the client's needs.

## **Client Referrals and Other Compensation**

Form ADV Part 2A, Item 14

Please refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with Schwab. Please refer to the *Brokerage for Client Referrals* section above for additional disclosures about fee arrangements for client referrals resulting from our relationship with Schwab.

We have, in the past, received client referrals from Charles Schwab & Co., Inc. ("Schwab") through our participation in Schwab Advisor Network™ ("the Service"). We no longer receive client referrals from Schwab. However, current clients referred previously by Schwab are subject to the terms of the fee sharing arrangement described hereafter. The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with us. Schwab does not supervise us and has no responsibility for our management of clients' portfolios or our other advice or services. In the past, we paid Schwab fees to receive client referrals through the Service. Our participation in the Service may raise potential conflicts of interest. We continue to pay Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab. The Participation Fee paid by us is a percentage of the fees the client owes to us or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. We pay Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to us quarterly and may be increased, decreased, or waived by Schwab from time to time. The Participation Fee is paid by us and not by the client. We have agreed not to charge clients referred through the Service fees or costs greater than the fees or costs we charge clients with similar portfolios who were not referred through the Service.



We generally pay 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 a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees we generally would pay in a single year. Thus, we 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 our clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, we will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit our fees directly from the accounts.

## ***Custody***

Form ADV Part 2A, Item 15

For those clients who have given the authorization to do so, as paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

You should compare our statements with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact us at (817) 336-4500, or contact your custodian directly.

## ***Investment Discretion***

Form ADV Part 2A, Item 16

Before we can buy or sell securities on your behalf, you must first sign our management agreement, a power of attorney, and/or trading authorization forms.

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio or that certain securities in the account be retained unless you provide instructions to sell them. Please refer to the "Advisory Business" section in this brochure for more information on our discretionary management services.

Our firm considers requests for non-discretionary investment advisory services on a case-by-case basis. If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.



## ***Voting Client Securities***

Form ADV Part 2A, Item 17

### **Proxy Voting**

We will vote proxies for all securities that we have purchased for your account. We will determine how to vote proxies based on our reasonable judgment of the vote most likely to produce favorable financial results for you. Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders. Generally, proxy votes will be cast against proposals having the opposite effect. However, we will consider both sides of each proxy issue. Unless we receive specific instructions from you, we will not base votes on social considerations.

In the event you wish to direct our firm on voting a particular proxy, you should contact John Keene at (817) 336-4500 with your instruction.

Conflicts of interest between you and our firm, or a principal of our firm, regarding certain proxy issues could arise. If we determine that a material conflict of interest exists, we will take the necessary steps to resolve the conflict before voting the proxies. For example, we may disclose the existence and nature of the conflict to you, and seek direction from you as to how to vote on a particular issue; we may abstain from voting, particularly if there are conflicting interests for you (for example, where your account(s) hold different securities in a competitive merger situation); or, we will take other necessary steps designed to ensure that a decision to vote is in your best interest and was not the product of the conflict.

We keep certain records required by applicable law in connection with our proxy voting activities. You may obtain information on how we voted proxies and/or obtain a full copy of our proxy voting policies and procedures by making a written or oral request to our firm.

## ***Financial Information***

Form ADV Part 2A, Item 18

We are not required to provide financial information to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.

## ***Additional Information***

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

Errors resulting in a gain should remain in your account unless:

- You were not permitted to make the trade due to regulatory constraints
- You provide us with written documentation demonstrating specific authorization to reject the gain after we provide you with relevant facts that could have a negative effect, such as undesirable tax consequences
- The error is a mutual fund trade, and the mutual fund company's policies or practices (e.g., relating to sub-account processing) do not readily allow retention of gains as part of correcting the error
- The same error involved other client account(s) that should have received the gain, such as when the error resulted from misallocations across more than one client's account, or there was mistaken entry of a client account number or identifier

For accounts custodied with Schwab, if the gain is not retained in your account, Schwab will retain the gain. For errors with a gain of \$100 or more, Schwab will donate the gain (along with other advisor trade error gains Schwab retains) to one or more charities selected by Schwab. For de minimis gains under \$100 not retained in your account, Schwab will keep the gain to minimize and offset its own administrative time and expense to process advisor trade errors.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation, nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you. We will assist you in completing and filing claim forms arising from class action suits for securities which we have purchased for your account.