

**Part 2A of Form ADV: Firm Brochure**

*Stafford Capital Management, LLC*  
*“SCM”*

**Stafford Capital Management, LLC**  
**Part 2A of Form ADV Brochure**

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March 30, 2012

This brochure provides information about the qualifications and business practices of Stafford Capital Management, LLC (“SCM”). If you have any questions about the contents of this brochure, please contact us at 415-362-6120.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Stafford Capital Management is a Registered Investment Adviser. Registration as an investment adviser does not imply any level of skill or training.

Additional information about Stafford is also available on the SEC’s website at:  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **Item 2. Material Changes**

This Amendment: Dated 4/18/2012

Performance Fee schedule in accordance with the provisions of CCR Section 260.234 disclosure for Arcas Strategy has been added to Section 5. Fees

Revised trading policy in Section 11. in accordance with CCR Section 260.238 (k) disclosure.

Added information to custody disclosure under California law to Item. 15

Annual Update: Dated 3/30/2012

This section of our brochure will reflect the annual update of any material changes that occur after issuance and delivery of our firms' last brochure.

Stafford Capital Management's most recent update to Part 2 of Form ADV was made in August of 2011. Due to the enactment of the Dodd Frank Reform, Stafford Capital Management may be required to migrate from SEC federal registration to state registration (State of California) in 2012.

Carol Horace has been appointed Chief Compliance Office commencing April 1, 2012, 415-362-6120 Ext 102. added to Item .11.

Stafford Capital Management announces a new service, the Arcas Strategy. This strategy is described in Item. 4 and Item. 5.

Information regarding a new fund that is being planned, the CalPacific Fund has been added to Section 4.

For more information on Arcas Strategy and CalPacific Fund, please contact Bob Stafford at 415-362-6120 Ext 101.

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#### **Item. 4 Advisory Business**

##### **Firm History and Principal Owners**

Founded in 1986, Stafford Capital, LLC (“SCM”) is a California limited liability company that provides investment supervisory services. SCM is owned and controlled by Robert Stafford, CEO and Co-Chief Investment Officer Craig Stephens, President, Co-Chief Investment Officer. SCM is a registered investment adviser with the SEC. Due to the Dodd Frank Reform, SCM may be required to migrate from SEC federal registration to state registration this year. (State of California) Registration does not imply a certain level of skill or training.

Robert M. Stafford - 12/17/1941 – Education and Business Background:

Princeton University, Princeton, NJ – BA 1963

Stanford University, Stanford, CA. – MBA 1968

1986 – Present: Chairman, CEO and Co-Chief Investment Officer, Stafford Capital Management

1993-Present: General Partner, Pacific Management, Ltd.

Craig Stephens - 09/20/1948 – Education and Business Background:

University of Southern California, Los Angeles, CA. – BS 1970

1988-1999: Portfolio Manager, RCM

1999-2007: KCM Investment Advisors

2007-Present: President, Co-Chief Investment Officer-Stafford Capital Management

2007-Present: General Partner, Pacific Management, Ltd.

As of December 31, 2011, Stafford managed approximately \$50,938,000.00 on a discretionary basis on behalf of approximately 40 individually managed accounts (“IMA’s”).

##### **Services Provided:**

SCM only manages assets on a discretionary basis.

SCM invests principally in equity and equity-related securities, mostly domestic, but is authorized to enter into any type of investment transaction that it deems appropriate under the terms of the Client’s Investment Advisory or other account agreement.

Dedicated to separate account management for high net worth individuals and families, trusts, small corporations and business entities. During the initial and periodic client interviews, an investment strategy is built upon the client’s profile and portfolios designed suitable for their needs.

SCM is an all capitalization, growth at a reasonable price (GARP) manager.

##### **Investment Strategies:**

SCM does not manage to an index but rather uses experience and judgment to construct client portfolios. A client’s portfolio is built from the bottom-up, one stock at a time. Every idea is assessed on the basis of its own unique growth, quality and valuation characteristics. Relative position sizes are a function of the strength and sustainability of the investment’s underlying business model, our perceived information edge, and the identification of catalysts that we believe will drive future investment returns. The stocks SCM invests in are generally the same for all clients, but do allow for special requests. The principle difference between clients is the position sizes relative to riskier stocks and the Client’s profile. Asset allocation and position sizes can vary according to the client’s risk profile.

#### The Arcas Strategy:

SCM has just launched a new service, The Arcas Strategy.

The Arcas Strategy is designed to smooth investment returns, reduce risk and enhance income by utilizing index options. This strategy's goal is to protect portfolios against sudden, severe drops in volatile markets. Arcas is managed by a subadvisor, Arcas Capital Management, who has 25 years experience in structuring and managing alternative investment strategies designed to hedge market risk.

#### CalPacific Fund:

The CalPacific Fund – which will be an aggressive investment vehicle, intended to maximize capital gains. This Fund is expected to launch later in 2012.

SCM's approach to investing is as follows:

Fundamental Style - bottoms-up, research-driven approach

Company and Industry Expertise – sector specific

GARP Bias - growth at a reasonable price

Investment Oriented - with opportunistic trading

Price Discrimination - selective entry and exit price points

Independent Thinking and Analysis – contrarian

## **Item 5. Fees and Compensation**

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### **SCM Investment Management Fee**

SCM Management Fees:

SCM typically charges an annual management fees as follows:

1.00 % - \$0 to \$5 million,  
0.75% - \$5 million to \$10 million  
0.50% - over \$10 million.

Fees are payable quarterly in advance and shall be computed upon the aggregate market value of the Investment Assets as of the last business day of the preceding month. If the services rendered commence on a day other than the first day of a quarter or terminate other than on the last day of a quarter, the fee shall be pro-rated.

### **Performance Fee**

SCM does not charge a performance fee to its advisory clients.

SCM has a sub-advisor relationship with Arcas Capital Management that charges a performance fee that is shared with SCM. This strategy is an optional service provided by SCM for appropriate clients.

Arcas Strategy Fees:

There are two fee structures for the Arcas Strategy for which the client to choose, which are in addition to the investment management fee charged by SCM on that portion of the portfolio dedicated to the strategy.

1% management fee, plus 20% of the profit generated by the Arcas Strategy  
or  
2% management fee, plus 10% of the profit generated by the Arcas Strategy

Arcas allots 20% of the Arcas performance fee to SCM.

The performance fee will only be charged in accordance with the provisions of CCR Section 260.234.

### **General Information on Fees**

SCM typically deducts management fees directly from IMA accounts, but will follow client's requests for alternative arrangements.

SCM believes its fees are competitive with fees charged by other investment advisers for comparable services. Comparable services may be available, however, from other sources for lower fees.

### **Expenses**

Each Client account is responsible for its own costs and expenses, such as:

- Trading costs and expenses (such as brokerage commissions, expenses related to short sales, and clearing and settlement charges)
- Interest and commitment fees on loans and debit balances

- Fees and charges of custodians, clearing agencies and banks

SCM bears its own operating, general and administrative and overhead costs and expenses, other than the expenses described above.

### **Termination**

The holder of an IMA may typically terminate the account by giving 30 days written notice unless other terms have been negotiated. In all cases, expenses and the pro rata portion of the management fee through the date of termination is charged to the Client. All prepaid but unearned advisory fees are refunded to the Client on termination of an account.

**Item 6. Performance Based Fees and Side-by-Side Management**

Not Applicable

**Item 7. Types of Clients**

SCM provides investment supervisory services to individually managed accounts, (“IMAs”) trusts, estates or charitable organizations, pension and profit sharing plans; and corporations and business entities. SCM has full authority and discretion to place brokerage orders on behalf of the Client with such broker or brokers SCM shall select or with whom the Client selects in writing.

SCM generally requires a minimum initial investment of \$1,000,000. This minimum may be waived by Stafford in its discretion.

SCM performs investment advisory services for various clients and may give advice and take action in the performance of its duties with respect to any of its other Clients which may differ from the advice given, or the timing or nature of action taken, with respect to various Client’s unique needs and suitability requirements.



## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

SCM's investment philosophy in constructing portfolios is to build portfolios of high quality stocks utilizing a disciplined valuation approach. We take the time to develop an in-depth understanding and perform extensive analysis of our portfolio companies, incorporating both fundamental analysis and technical analysis methods. Our broad network of highly accomplished CEO's, venture capitalists, industry contacts and money management peers, which we term *The Stafford Network*, gives us a distinct perspective in uncovering investment opportunities. We recognize that every stock has its own unique story. Despite differentiating characteristics, there are certain universal qualities that occur repeatedly in the best investment opportunities. Specifically, the underlying beliefs that SCM was built on: superior management teams, large addressable market opportunities, sustainable competitive advantages, solid balance sheets and an attractive valuation relative to our intrinsic target. We create a relatively concentrated portfolio of these stocks that we believe will generate above-market returns with below-market risk.

### **Portfolio Construction:**

We do not manage to an index but rather use experience and judgment to construct Client portfolios.

A Client's portfolio is built from the bottom-up, one stock at a time. Every idea is assessed on the basis of its own unique growth, quality and valuation characteristics. Relative position sizes are a function of the strength and sustainability of the investment's underlying business model, our perceived information edge, and the identification of catalysts that we believe will drive future investment returns.

Furthermore, we believe a focused investment portfolio of businesses, with extraordinary risk-return profiles will generate superior long-term performance. Accordingly, the portfolio is structured to provide an optimal level of both concentration and diversification. We have a long-term focus that optimizes a Client's portfolio for after-tax returns.

SCM provides its clients with continuous investment supervision. Such investment supervision is based on current market conditions, as well as knowledge of the clients' objectives. SCM's primary strategy is that of an all capitalization manager. Portfolios are built from the bottom-up, with high quality stocks utilizing a disciplined valuation method and diversification.

SCM seeks companies selling into large markets with proprietary characteristics with a GARP (growth at a reasonable price) overlay.

Within this strategy, SCM has two separate approaches:

1) Balanced-Growth Approach - Stafford builds a more balanced portfolio with typical positions sizes of 2% to 6%. Portfolios will generally own an average of 25-30 stocks.

2) Concentrated Approach - SCM maintains a more concentrated portfolio where there is no cap on position size generally due to large unrealized gains. Advisor tends to purchase higher valuation securities in this approach. Individual stocks are not trimmed or sold due to the increase in position size, as most accounts are e tax sensitive in nature. In certain instances, a position size might be over 20% based on this investment style.

Both approaches will sell securities when the fundamental investment thesis changes or deteriorates, or when the stock becomes less attractive on a risk/reward basis.

**Buy Criteria:**

SCM's buy discipline is based on an individual company's growth opportunity as defined by its market opportunity, the quality of its management, the strength of their balance sheet and the identification of a catalyst for change relative to Wall Street expectations. SCM strives to create long-term capital gains on a stock by stock basis and to offset gains whenever possible. SCM believes that a company's market opportunity, its people and its financing provide the foundation that will ultimately drive valuation. We seek our edge from the mosaic of our experience and our investment network in identifying unique and undiscovered opportunities. Companies with these investment characteristics become candidates for purchase in your portfolio.

**Sell Discipline:**

SCM's sell discipline is triggered by a failed attribute of the previously discussed buy criteria. . A non-core holding will be sold when it declines below its normal trading range. If one of the fundamental tenets of our recommendation changes in a materially negative way, whether we determine that growth rates have been compromised, there has been a loss of competitive advantage or a diminished barrier to entry, a management credibility issue, a deteriorating balance sheet, or a catalyst has been missed relative to our expectations, the holding becomes a candidate for sale. Holdings are reviewed regularly on the basis of fundamentals as well as price appreciation and deterioration from our cost basis.

**Types of Investments:**

SCM focuses on various investment types, which include:

Equity Securities; including exchange listed securities, securities traded over-the-counter and foreign issuers, Warrants; Corporate Debt Securities; Convertibles; Commercial Paper; Certificates of Deposit; Municipal Securities; and United States Government Securities.

**Risk of Loss Factors:**

Investing in securities involves risk of loss that Clients should be prepared to bear. Below are some of the risks that investors should consider before investing in any account that SCM manages. Any or all of such risks could materially and adversely affect investment performance, the value of any account or any security held in an account, and could cause investors to lose substantial amounts of money. Below is only a brief summary of some of the risks that a holder of an IMA may encounter. All prospective Clients should consult with their professional advisers before deciding to invest. A potential client should discuss with Stafford's representatives any questions that such person may have before opening an account.

- Client accounts may not achieve their investment objectives. A strategy may not be successful and Investors may lose a portion of their capital.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is not predictable and can adversely affect an account's investments.
- An account may hold stocks that disappoint earnings expectations and decline. SCM may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive. SCM also may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for a Client when the Client could make a profit or avoid a loss.
- SCM may take positions in securities of small or unseasoned companies that are less actively traded and more volatile than those of larger companies.
- SCM may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedge do not always correlate, resulting in losses on both the hedged security and the hedging instrument. SCM is not obligated to hedge a Client's portfolio positions, and it frequently may not do so.

- An account may have higher portfolio turnover and transaction costs than a similar account managed by another investment adviser. These costs reduce investments and potential profit or increase loss.
- SCM could sell securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- SCM may invest in debt instruments, whose values may vary unpredictably with shifts in interest rates, issuers' ability to pay principal and interest, and issuers' defaults.
- Counterparties such as brokers, dealers, custodians and administrators with which SCM does business on behalf of Clients may default on their obligations. For example, a Client may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- SCM may cause Clients to invest in securities of non-US based private and government issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to other negative consequences to investors.
- An account's investments may not be diversified. Therefore, a loss in any one position, industry or sector in which an account has invested may cause significant losses.
- SCM and agents generally are not responsible to any Client for losses incurred in an account unless the conduct resulting in such loss breached SCM's fiduciary duty to the Client.

The above is only a brief summary of some of the important risks that a Client may encounter. Before deciding to invest, investors should consider carefully all the risk factors. For more detail, call Stafford Capital Management at 415-362-6120.

### **Item 9. Disciplinary Information**

Not Applicable

### **Item 10. Other Financial Industry Activities and Affiliations**

Robert Stafford and Craig Stephens are General Partners of Pacific Management, Ltd. Pacific Management, Ltd. ("PML") is a separately registered Investment Advisor and serves as the General Partner of Pacific Asset Partners (PAP). PAP is a partnership that invests in a combination of publicly traded micro-cap and small to mid-cap stocks, private companies, and short selling/options based on fundamental research. SCM is hired to administrate the trading and operations of PAP, which is the client PML.

SCM has a sub-advisor relationship with Arcas Capital Management to provide the Arcas Strategy to clients who wish to include this in their portfolios. SCM has a compensation arrangement as outlined in Item. 5 that is in addition to its advisory fees.

Carol Horace is an employee of SCM, managing the front office administration, trading and compliance and is also a financial services independent contractor. From time to time, she may be associated with other financial brokers, dealers or investment advisors on a consulting basis outside of SCM on an administrative basis. Currently she has an independent contractor relationship with broker dealer Discern Group.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

SCM has adopted a Trading Policy/Code of Ethics in compliance with Rule 204A-1 under the Advisers Act, which establishes standards of conduct for its employees. The Trading Policy/Code of Ethics includes general requirements that SCM employees comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of Client information.

The basic principle of SCM is that the Client's interest must always come first. There is a fiduciary duty of SCM to its Clients which includes: not employing any device, scheme or artifice to defraud and not engage in any transaction practice or course of business which operates as a fraud or deceit upon any Client or prospective Client.

It is common practice for SCM officers and employees to invest in the same stocks as advised for the clients, which could pose conflicts of interest. Trading policies and a written Code of Ethics have been set in place to avoid these conflicts of interest. All SCM partners and employees must submit purchase/sell forms that must be approved prior to trading any security. Generally, SCM supervised personnel may buy or sell the same securities with the client, so long as their participation causes no harm to the clients' order. SCM supervised personnel cannot be allocated a more favorable execution than the clients' conglomerated average price of the day. Annually, each SCM Partner and employee receives and must certify in writing that he or she received the Trading Policy/Code of Ethics and any amendments during that year.

SCM and its officers, managers and employees may personally invest in securities of the same classes as are purchased for Clients and they may own securities of classes that are subsequently purchased for Clients. This practice may create a conflict of interest in that any of such persons can use his or her knowledge about actual or proposed securities transactions and recommendations for a Client account to profit personally by the market effect of such transactions and recommendations. To address this potential conflict, SCM and its officers, managers and supervised personnel are required to pre-clear transactions in securities designated as "Reportable Securities", and SCM will only grant approval to trade so long as the security is not being contemplated for trading or in process of trading for SCM, or has otherwise been restricted.

SCM and its officers, managers, and employees may also buy or sell a specific security for their own accounts based on personal investment considerations, which SCM does not deem appropriate to buy or sell for Clients. The performance of the personal accounts of SCM and its officers, managers and employees may be more favorable at times than that of Clients' accounts.

Clients and prospective clients may obtain a copy of the Trading Policy/Code of Ethics by contacting Carol M. Horace, Chief Compliance Officer at 415-362-6120 Ext 102

## **Item 12. Brokerage Practices**

SCM is not a broker-dealer. SCM will have the authority to determine, without obtaining specific client consent, the broker/dealer to be used for trade executions (except in instances where the client has requested a specific broker in writing). SCM's goal is to achieve the best execution for the client. Additionally, if the security is a listed stock; SCM's goal is to achieve the lowest commission level.

SCM is in a better position to negotiate brokerage commissions if the brokerage is not directed by the Client. SCM is not always able to obtain the best execution in certain transactions for broker-directed accounts because it is not negotiating commissions on behalf of these clients.

SCM currently has accounts whereby the client has requested the use of a specific broker. This generally results in higher commissions than SCM provides. See Item 16.

SCM has a soft dollar arrangement with BTIG.

## **Item 13. Review of Accounts**

All accounts are under continuous supervision by Co-Chief Investment Officers, Robert Stafford and Craig Stephens. Current holdings and candidates for purchase are monitored daily. Account performance is reviewed weekly as well as the consistency of portfolio holdings with the investment guidelines and appropriateness in the current economic environment.

On a weekly basis all individual accounts are reviewed by Robert Stafford or Craig Stephens. At that time a more detailed evaluation is completed which includes the status of realized gains and losses, income needs, and portfolio diversification.

Clients are furnished with quarterly portfolio appraisals, together with realized gains and loss, interest and dividends, purchase and sale reports, and in some cases a performance comparison to their benchmark.

## **Item 14. Client Referrals and Other Compensation**

Not Applicable

### **Item 15. Custody**

All Client assets are held in custody by unaffiliated broker/dealers or banks. SCM may withdraw fees directly from client accounts or clients may pay fees by check which is by client choice. Under California law, an investment advisor is defined to have custody of client assets if the investment advisors withdraws fees directly from client accounts. The custodian of each IMA sends account statements at least quarterly to the Client. SCM carefully evaluates the reports by custodians for accuracy. Nonetheless, each Client should carefully review those statements and compare them with the statements that such Client receives directly from SCM.

### **Item 16. Investment or Brokerage Discretion**

SCM has the authority to determine, without obtaining specific client consent, securities to be bought or sold, amount of the securities to be bought or sold, broker or dealer to be used and commission rates paid. SCM will suggest an array of brokers/banks to clients, but the final decision belongs to the client. SCM will also direct soft dollar payments to other research providers, including 75% of the annual expense of Advent Software, 65% of the computers purchased for research analysts, all of Bloomberg, and related stock exchange expenses, IDC pricing service, and fees charged to attend investment conferences. It is possible that additional research will be outsourced to other research consultants on a case by case basis through soft-dollars and that SCM may enter into soft-dollar arrangements with other brokerage firms. Since client transactions with the soft-dollar broker will be aggregated, it is possible that numerous trades may be used to benefit other clients or the advisors' research budget and not solely themselves. The firm may direct BTIG, our principle prime broker-custodian, to pay soft dollars to other research consultants to achieve both best execution and acknowledge their research contribution.

### **Item 17. Voting Client Securities**

It is SCM's policy to vote Clients' proxies with management, but it is possible to vote otherwise to management.

### **Item 18. Financial Information**

Not Applicable – SCM does not have custody of client funds or securities

## **Item 19. Requirements for State-Registered Accounts**

Principle Executive Officers and Management Persons

Robert M Stafford – 12/17/1941: Chairman, CEO and Co-Chief Investment Officer

Princeton University, Princeton, NJ – BA 1963

Stanford University, Stanford, CA. – MBA 1968

1986 – Present: Chairman, CEO and Co-Chief Investment Officer, Stafford Capital Management

1993 – Present: General Partner, Pacific Management, Ltd.

Craig A. Stephens – 09/20/1948: President and Co-Chief Investment Officer

University of Southern California, Los Angeles, CA. BS 1970

1988-1999: Portfolio Manager, RCM

1999-2007: Partner, KCM Investment Advisors

2007-Present: President, Co-Chief Investment Officer, Stafford Capital Management

2007-Present: General Partner, Pacific Management, Ltd.