

Disclosure Brochure

(Containing the information required in Part 2A of Form ADV)

March 30, 2012

Towneley Capital Management, Inc.

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This brochure provides information about the qualifications and business practices of Towneley Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at info@towneley.com, or at the telephone number above.

As an investment advisor with more than \$100 million under management, Towneley is required by law to register with the SEC. SEC registration does not indicate or imply that Towneley possesses a particular level of skill or training. The information in this brochure has not been approved or verified by the Securities and Exchange Commission ("SEC") or by any state securities authority. Additional information about Towneley Capital Management is available on the SEC's website at: www.adviserinfo.sec.gov.

Please retain a copy of this brochure for your records.

Item No. 2: Material Changes

Since we last updated this brochure on March 30, 2011, the following material changes have occurred to information provided in this brochure:

We added discussion of our investment advisory services to qualified retirement plan sponsors and our fees for such services to our responses to Items 4 and 5, as follows:

Item No. 4: Advisory Business...***Investment Advisory Services to Qualified Retirement Plan Sponsors*****Retirement plan consulting**

We provide retirement plan consulting services to employer plan sponsors on a one-time or ongoing basis. Generally, such retirement plan consulting services consist of assisting employer plan sponsors in establishing, monitoring and reviewing their company's participant-directed retirement plan. As the needs of the plan sponsor dictate, areas of consulting could include: investment options, plan structure and participant education. With respect to these services, we acknowledge in our Investment Advisory Agreement for Qualified Plans that we are a fiduciary within the meaning of Section 3(21) of ERISA.

Retirement plan asset management

We provide retirement plan asset management services on an ongoing basis. Generally, such asset management services consist of selecting, monitoring, removing, and/or replacing the investment options under the plan, consistent with the objectives, written guidelines and/or investment objectives set forth in the written investment policy statement accepted and adopted by the client. As the needs of the plan sponsor dictate, areas of management could include: plan investment options, asset allocation, plan structure, and participant education. With respect to these services, we acknowledge in our Investment Advisory Agreement for Qualified Plans that we are a fiduciary within the meaning of Section 3(38) of ERISA.

Item No. 5: Fees and Compensation...***Investment Advisory Fee for Qualified Retirement Plan Sponsors***

The fee-paying arrangement for retirement plan consulting and asset management services is determined on a case-by-case basis and is detailed in our Investment Advisory Agreement for Qualified Plans. The type and amount of fees charged to the plan sponsor are generally based on the size and complexity of the plan, the number of plan participants, the location of the participants, the estimated number of meetings required, and other factors that we may deem relevant. We charge an annualized fee of 0.10% to 1.00% of the plan's assets for retirement plan consulting and asset management services, subject to our minimum quarterly fee of \$1,250. In lieu of an asset-based fee, we may charge a fixed fee ranging from \$5,000 to \$100,000. Generally, a fixed fee will not exceed 1.00% of the plan's assets unless the plan's assets fall below our minimum account size of \$500,000. An estimate of the total cost will be determined prior to the start of the advisory relationship. We invoice the plan sponsor directly for our fees, which are generally payable quarterly in advance.

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Item No. 4: Advisory Business

Towneley Capital Management, Inc. (“Towneley,” “we,” or “us”) is an SEC-registered independent investment advisory firm founded in 1971. Towneley operates as a Delaware corporation. The principal owners of the corporation are two trusts created by Towneley’s chairman and founder, Wesley G. McCain.

We offer investment counseling, asset management and financial planning services on a fee-only basis to individuals, high net worth individuals, trusts, estates, pension and profit sharing plans, nonprofit and charitable organizations, corporations and other business entities (“you” or “client”). We do not sell insurance, annuities or other commission-based financial products.

Approximately 90% of our business is providing investment supervisory services and portfolio review and reporting services as described in Item No. 13: Review of Accounts, below. Approximately 10% of our business is furnishing investment advice through consultation and providing financial planning services. As of February 29, 2012, we managed 290 accounts on a discretionary basis worth a total of \$541,725,566 and zero accounts on a nondiscretionary basis. We do not sponsor or participate in any wrap fee programs.

Investment Advisory Services to Individual Clients

We tailor our advisory services to the individual needs of each client. We begin our investment advisory relationship by defining your goals and objectives. We become familiar with your investment history, tolerance for risk, time horizon, expected annual contributions and withdrawals and other important factors. We then recommend an asset allocation specifically suited to you.

Once we understand your individual needs and preferences, we use our proprietary models to construct your custom portfolio of no-load mutual funds, exchange traded funds, or a combination of the two. By carefully selecting a variety of domestic and international equity, fixed income and specialty funds, we design a diversified portfolio aimed at furthering your goals with the least possible risk.

When purchasing funds for your account, we may use cost averaging. By establishing equity and some fixed income positions over a period of months rather than all at once, we can achieve an average cost basis lower than the highest price paid, boosting returns. We will recommend a timetable for investing your portfolio based on the types of investments in your portfolio, our analysis of the markets and your preferences.

You may impose reasonable restrictions on the investments in your Towneley portfolio. For example, you may request that investments in a particular asset class, such as emerging market bonds, be excluded from your portfolio and we will honor your request.

We require that our clients give us full discretion to instruct the custodian/broker-dealer to invest cash and to sell and exchange securities in their accounts at any time. However, we never take physical possession of your funds or securities, nor do we have the authority to withdraw or transfer your funds without your express written consent. See Item No. 15: Custody, for more information about custody. TD Ameritrade Institutional provides custodial services to most of our clients. Your portfolio assets held at TDA are registered under your account name and tax identification number and are not commingled with the assets of any other client or account.

We encourage you to keep us informed of any changes in work, family, health or other life circumstances that might warrant a reassessment of your investment goals or portfolio allocation. We offer you the opportunity to meet with us annually or more often if you request. These meetings provide an excellent opportunity for you to inform us of changes in your life or your business, and other matters of importance to you.

Investment Advisory Services to Institutions

We begin our investment advisory relationship by defining and quantifying your goals and objectives. Our first step is to review your organization’s investment policy statement. We work with your investment committee to help revise it, as appropriate. During this process, we talk with you to become familiar with your investment

history, tolerance for risk, time horizon, possible projected annual cash flow and other important factors. We then recommend an asset allocation specifically suited to your institution. We manage your accounts in accordance with your investment policy statement. As your organization's needs and goals change and mature, we may recommend further revisions to your investment policies during our periodic meetings with the investment committee and/or board of directors.

Once we understand your organization's needs and preferences, we apply our expertise and proprietary models to construct a custom portfolio of no-load mutual funds, exchange traded funds or a combination of the two. We carefully select a variety of domestic and international equity, fixed income and specialty funds, while honoring any restrictions specified by your IPS. The result is a portfolio aimed at furthering your goals with the least possible risk.

When purchasing funds for your account, we may use cost averaging. By establishing equity and some fixed income positions over a period of months rather than all at once, we can achieve an average cost basis lower than the highest price paid, boosting returns. We will recommend a timetable for investing your portfolio based on the types of investments in your portfolio, our analysis of the markets and your preferences.

You may impose reasonable restrictions on the investments in your Towneley portfolio. For example, you may request that investments in a particular asset class, such as emerging market bonds, be excluded from your portfolio and we will honor your request.

We require that our clients give us full discretion to instruct the custodian/broker-dealer to invest cash and to sell and exchange securities in their accounts at any time. However, we never take physical possession of your funds or securities, nor do we have the authority to withdraw or transfer your funds without your express written consent. See Item No. 15: Custody, for more information about custody. TD Ameritrade Institutional provides custodial services to most of our clients. Your portfolio assets held at TDA are registered under your account name and tax identification number and are not commingled with the assets of any other client or account.

We encourage you to keep us informed of any changes in your organization's circumstances that might warrant a reassessment of investment goals or objectives. We also schedule periodic client meetings, which provide an excellent opportunity for you to discuss with us any developments that may affect your asset allocation and the management of your portfolio.

Investment Advisory Services to Qualified Retirement Plan Sponsors

Retirement plan consulting

We provide retirement plan consulting services to employer plan sponsors on a one-time or ongoing basis. Generally, such retirement plan consulting services consist of assisting employer plan sponsors in establishing, monitoring and reviewing their company's participant-directed retirement plan. As the needs of the plan sponsor dictate, areas of consulting could include: investment options, plan structure and participant education. With respect to these services, we acknowledge in our Investment Advisory Agreement for Qualified Plans that we are a fiduciary within the meaning of Section 3(21) of ERISA.

Retirement plan asset management

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Financial Planning Services

In addition to investment counseling and management, we offer financial planning services to our clients and prospective clients. Our services include:

Pre-retirement planning

We help you determine whether your current retirement goals are attainable or may need some adjustment, suggest how much you should accumulate to retire when and as you would like, and where you should be saving your money, e.g. in an IRA, 401(k) and/or a taxable account.

Post-retirement distribution planning

When you are ready to retire, and periodically during your retirement years, we use our proprietary analytical tools to help you determine how much you can withdraw from your invested assets without outliving your money.

Spending and budget analysis

We evaluate your income and expenditures and provide you with an analysis that includes our suggestions for reducing spending and increasing savings. Although we do not provide specific tax advice, our analysis may include suggestions that can help reduce your taxes. If appropriate, we can also evaluate your mortgage or other outstanding loans and help you determine if you might benefit from refinancing or from discharging those debts sooner than scheduled.

College cost analysis and planning

We use proprietary analytical tools to estimate how much you should save for future college expenses depending on which college you ask us to target, and other variables. We can also recommend the best type of account to hold your college savings and help you determine the appropriate asset allocation for that account.

We tailor our financial planning services to your needs.

Item No. 5: Fees and Compensation***Minimum Account Size***

We require a minimum \$500,000 investment in each new account. However, we do not require a minimum balance to maintain an established account. If your account balance falls below a certain amount, we will not automatically close the account.

Investment Advisory Fees

We charge a percentage of assets under management for our investment management services described in this brochure. We may charge a separate hourly rate or a fixed fee for financial planning, special projects or consulting, as discussed more fully below. Our compensation comes solely from our clients; we do not receive any compensation from third parties. Neither Towneley, nor any of its supervised persons, officers or employees, accepts compensation or other incentives for the sale of securities, including asset-based sales charges or service fees from the sale of mutual funds.

For our asset management and related services, we charge you a quarterly investment advisory fee, payable in advance, calculated on the average of the fair market value of the cash and securities in your account on the last day of each of the preceding three months in which your account had a balance greater than zero. For example, if the balances in your account on the last day of January, February and March were \$550,000, \$548,000 and \$573,000, respectively, we would charge you an advisory fee for the second quarter based on the average of those three balances, which is \$557,000. If you opened your account January 28, but did not deposit funds in the account until after February 1, then we would base our second quarter advisory fee on the average of your February and March ending balances only, which is \$560,500.

Investment Advisory Fee for Individual Clients and Institutions

Our minimum quarterly fee is \$1,250. We calculate quarterly investment advisory fees according to the following rate schedule (annual fee rates are estimates):

Quarterly Fee Rates:	Estimated Annual Fee Rate:
0.2500% of the first \$1,000,000 of assets.	1.0% ⁺
0.2000% of the next \$1,000,000 of assets.	0.8%
0.1500% of the next \$1,000,000 of assets.	0.6%
0.1250% of the next \$2,000,000 of assets.	0.5%
0.0750% of the assets over \$5,000,000.	0.3%

⁺ Due to imposition of the minimum fee, the Estimated Annual Fee Rate for accounts valued at less than \$500,000 exceeds 1.0%.

To minimize administrative expenses, we prefer that you authorize the custodian to deduct our advisory fees directly from your account(s), although you may elect instead to pay our fees by check. We do not accept payment of our fees by credit card. See Item No. 15: Custody for a list of the procedures we have in place to provide for the direct debiting of advisory fees from client accounts.

Our Investment Advisory Agreement contains the following additional information about our compensation and fees:

- If your advisory agreement with us begins on a day that is not the first day of a calendar quarter, we will prorate our fees for the initial quarter from the date your account is funded through the end of the current quarter.
- We send a statement to you quarterly showing the amount of our advisory fee due, the account value(s) on which our fee is based and the method by which we calculated our fee. You are responsible for reviewing our fee computations. You may authorize the custodian to pay our management fee directly from your account(s) after we submit a bill to the custodian showing the management fee for each calendar quarter.
- If you have two or more accounts under our management, we may calculate our investment advisory fee based on the total aggregate assets in all of your accounts. If we consolidate your accounts for purposes of determining our fees, you may benefit from a lower effective fee rate. We may apply a minimum per account fee to consolidated accounts.
- You may terminate our investment advisory agreement and receive a full refund of all fees paid to date by notifying us in writing within five (5) business days after the effective date of the agreement. If the agreement terminates five (5) or more business days following its effective date, then the termination policy described in the following bullet point applies.
- Either you or we may terminate the investment advisory agreement upon 30 days written notice. If the advisory agreement terminates prior to the last day of a calendar quarter, we will prorate our fees for such quarter to the effective termination date. Once we issue or receive written notice of termination, we stop trading activity in your account(s) unless you instruct us otherwise in writing.

Investment Advisory Fee for Qualified Retirement Plan Sponsors

The fee-paying arrangement for retirement plan consulting and asset management services is determined on a case-by-case basis and is detailed in our Investment Advisory Agreement for Qualified Plans. The type and amount of fees charged to the plan sponsor are generally based on the size and complexity of the plan, the number of plan participants, the location of the participants, the estimated number of meetings required, and other factors that we may deem relevant. We charge an annualized fee of 0.10% to 1.00% of the plan's assets for retirement plan consulting and asset management services, subject to our minimum quarterly fee of \$1,250. In lieu of an asset-based fee, we may charge a fixed fee ranging from \$5,000 to \$100,000. Generally, a fixed fee will not exceed 1.00% of the plan's assets unless the plan's assets fall below our minimum account size of \$500,000. An estimate of the total cost will be determined prior to the start of the advisory relationship. We invoice the plan sponsor directly for our fees, which are generally payable quarterly in advance.

Financial Planning Fees

We generally provide financial planning services to current asset management clients at no additional charge. If we do not manage any of your assets, we may provide financial planning services to you for an hourly or flat fee. We may also provide other financial consulting services to you for an hourly or fixed rate. Our hourly rate is \$250, and our fixed fee ranges from \$250 to \$5,000, depending on the scope of the project.

Other Fee Information

Under certain circumstances, our advisory fees, financial planning fees and account minimums may be negotiable. We reserve the right to adjust our fee schedule, waive our minimum fee, or waive the minimum account size for an account depending on, among other things, the size and type of account, our historical relationship with the client, our management of related accounts and account composition. As a result, some clients may pay lower fees for our services than they would under the fee schedule illustrated above. In addition, lower fees for comparable services may be available from other investment advisors.

Fund Expenses and Transaction Charges

We offer two different investment management programs: our Multiple Mutual Fund Strategy ("MMFS") and our Exchange Traded Fund ("ETF") strategies. MMFS clients may incur fund-based costs and transaction charges different from those incurred by ETF strategy clients.

MMFS

In addition to our advisory fees, as an MMFS client you will incur the underlying expenses of the no-load mutual funds held in your portfolio. Mutual fund expenses include management fees (paid to the unaffiliated fund managers), 12b-1 fees (for distribution and advertising), administrative fees and any other asset-based costs incurred by the fund. The mutual fund expense ratio, normally expressed as a percentage, reflects the ratio of fund expenses to fund assets. Mutual fund expense ratios do not reflect sales loads, redemption fees, or transaction fees, if applicable.

Although we attempt to avoid using funds that charge 12b-1 fees, our research analysts may occasionally determine that a particular fund is a good choice for client portfolios even though that fund charges a 12b-1 fee. We do not accept 12b-1 fees. In the event our research analysts select a fund that charges a 12b-1 fee, the fund company retains the fee.

To discourage market timing, some of the funds we use may charge short-term redemption fees of up to 2% that apply to sales within 12 months of purchase. You pay redemption fees, wire fees and overnight check charges, when incurred.

We cover all open-end mutual fund trading costs incurred in MMFS accounts and do not pass these costs on to you. From time to time, our research analysts may add one or more ETFs or closed-end funds to your MMFS account portfolio. In that event, you pay the costs incurred in trading the ETFs and closed-end funds (see

discussion below), while we continue to pay any applicable mutual fund trading costs generated in your account.

ETF Strategies

As an ETF strategy client, you will incur the underlying expenses of the exchange traded and closed-end funds in your portfolio in addition to our advisory fees. ETF and closed-end fund expenses include management fees paid to the managers of the ETFs and closed-end funds in your portfolio. A fund's expense ratio, normally expressed as a percentage, reflects the ratio of fund expenses to fund assets. ETF and closed-end fund expense ratios do not reflect transaction costs, if applicable.

Because ETFs and closed-end fund shares trade like stocks, you may pay a transaction cost associated with each trade, called a "trade commission." Clients whose accounts are custodied at TD Ameritrade Institutional may pay a trade commission for ETF and closed-end fund trades. TD Ameritrade's clearing agent deducts the trade commission from each client's account at the time we place the trade. Clients pay the same trade commission whether their trades are aggregated with those of other clients or not. See the discussions of both TD Ameritrade and Trade Aggregation in Item No. 12: Brokerage Practices, below.

From time to time, our research analysts may add one or more mutual funds to your ETF strategy portfolio. In that event, we pay any mutual fund transaction fees applicable to trades in your ETF strategy portfolio. However, you continue to pay the trade commissions incurred in trading the ETFs and closed-end funds in your ETF strategy portfolio.

Custodial Fees

We pay all custodial account fees on your behalf.

Item No. 6: Performance-Based Fees and Side-by-Side Management

Neither we, nor any of our supervised persons, staff members or employees, receive from any client performance-based fees based on a share of capital gains on or capital appreciation of the assets of the client.

Item No. 7: Types of Clients

We have the following types of clients: individuals, high net worth individuals, trusts, estates, pension and profit sharing plans, nonprofit and charitable organizations, corporations and other business entities.

Item No. 8: Methods of Analysis, Investment Strategies and Risk of Loss

The primary investment strategies we use to implement our investment advice to our clients are long-term purchases (securities held at least one year) and short-term purchases (securities sold within one year). We do not use frequent trading (purchase and sale within 30 days) or market timing strategies.

Investing in all types of securities involves risk of loss. You should be prepared to bear these risks. Your investment in either our MMFS or our ETF strategies may lose money over the short or long term.

MMFS

We designed our MMFS to be a complete, diversified global investment strategy appropriate for most investors.

Our MMFS research analysts screen several thousand mutual funds using various criteria, including performance in both up and down markets, risk profile, volatility, fund manager tenure and experience and expense ratios and other fees. They then select 18-25 funds from among those screened for inclusion in client portfolios. Analysts select each fund for its contribution to the portfolio in terms of market size, industry weightings, performance in up and down markets and geographic emphasis. Our research analysts attempt to select funds that have a low correlation to one another with the goal of generating higher total portfolio returns over the long term. Although our MMFS works best for long-term investors, we can tailor the strategy to suit investors with shorter time horizons.

The primary risk associated with an investment in the MMFS is market risk. Market risk is the possibility that stock or bond prices overall will decline over short or even extended periods. Although helpful in reducing market risk, portfolio diversification cannot eliminate it.

ETF Strategies

We designed our ETF strategies to compliment an investor's existing portfolio, and thus these strategies may not be appropriate for all investors.

Developed Markets and Emerging Markets Strategies

Research analysts for our developed and emerging market ETF strategies analyze long-term investment values and short-term investment climates in global financial markets to identify undervalued national and regional investment opportunities in equities, fixed income and commodities. Strategy assets are allocated between equities, fixed income and commodities according to relative valuations. The primary risks associated with an investment in either the developed markets strategy or the emerging markets strategy are market risk (as defined above) and currency risk. Currency risk is the possibility that returns may be lower for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Currency risk is the same as exchange rate risk.

Global Balanced Strategy

Our investment process for our global balanced strategy is twofold. We invest fifty percent (50%) of the portfolio in broad market ETFs, with a small portion in commodities. Commodities include currencies, precious metals, real estate and other commodities. The remaining 50% of the strategy we invest using our proprietary global asset allocation model. We assign asset category weights based on the relative value of each asset category worldwide.

The primary risks associated with an investment in the global balanced strategy are market risk (as defined above) and currency risk (as defined above).

Inflation Protection Strategy

The objective of our inflation protection strategy is to provide a hedge against the loss of purchasing power due to U.S. dollar price inflation and/or to a decline in the exchange rate of the U.S. dollar. Our research analysts allocate strategy assets among several asset classes that have historically provided a hedge against price inflation.

The primary risks associated with an investment in the inflation protection strategy are market risk (as defined above), currency risk (as defined above) and leverage risk. Leverage risk is the risk that losses may exceed the value of invested capital due to the use of borrowing, or leverage. Currently, we invest a small portion of the inflation protection strategy (less than 10%) in ETFs that use leverage.

Cash Management

We currently use TDA's FDIC-insured cash fund as the cash sweep vehicle for all client accounts custodied at TDA, rather than one of TDA's money market fund sweep options. The TDA cash fund is FDIC insured and pays a rate of return similar to that of a bank savings account. Since the TDA cash fund is not a mutual fund, it does not pass its operating expenses on to fund participants. Each of the money market fund sweep options available through TDA pays a variable rate of return that, depending on market conditions, may or may not exceed the return paid by the TDA cash fund. Each money market fund sweep option passes a portion of its operating expenses on to fund participants. None of the money market fund sweep options to which our clients have access through TDA is insured or guaranteed by the FDIC, or by any other government agency, and may lose value.

Unless you have a need for a higher cash balance, we aim to keep approximately 1% of your portfolio value in cash. If you are taking regular withdrawals from your portfolio, or you have a short time horizon, we aim to

maintain a cash balance sufficient to meet your short-term withdrawal needs. We include your cash balance in the total portfolio value upon which we calculate our advisory fees. See Item No. 5: Fees and Compensation for an explanation of how we calculate our fees.

Item No. 9: Disciplinary Information

None.

Item No. 10: Other Financial Industry Activities and Affiliations

None.

Item No. 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have adopted a Code of Ethics ("Code") designed to comply with Rule 204A-1 under the Investment Advisers Act of 1940 ("Adviser's Act"). The Code establishes rules of conduct designed to ensure that our officers, directors and employees continue to meet the high ethical standards we have long maintained. Current clients may request a copy of our Code of Ethics at any time by calling us toll-free at (800) 545-4442.

Fiduciary Duty

We based our Code on the principle that we owe a fiduciary duty to all of our clients to put their best interests ahead of our own. Accordingly, the Code prohibits our officers, directors and employees from conducting their personal affairs, including their personal securities transactions, in such a manner as to serve their own personal interests at the expense of our clients. In addition, the Code requires that all employees submit periodic reports to our chief compliance officer ("CCO") evidencing their compliance with relevant provisions of the Code. For example, the Code requires that all employees obtain the CCO's approval before participating in an initial public securities offering or a private offering. In addition, all employees with access to client data must report their personal trading activity quarterly and their securities holdings annually.

Restrictions on Personal Securities Transactions

Any time the staff of an investment advisory firm holds personal investments, the potential for a conflict of interest occurs. Our Code of Ethics does not prohibit our officers, directors and employees from personally investing in the same ETFs that we use in client accounts. However, our Code of Ethics requires our officers, directors and employees to refrain from trading an ETF held in their own account within three trading days before and after the day we last traded the same ETF in a client's account.

Every quarter, our compliance officer and CCO review employees' personal trades and compare them to client trades in those same securities. Our compliance officer or CCO may investigate employees' personal securities trading. Our officers, directors and employees are required to cooperate with such investigations and any monitoring or other review procedures employed by the compliance department.

We do not participate in principal, cross or agency-cross transactions for or with any client.

Management of Affiliated Accounts

Certain Towneley employees and/or members of their families maintain MMFS and/or ETF strategy accounts and thus are our clients. In order to avoid favoring staff and family member clients over our other clients with respect to service and trading, we assign staff and family member accounts to an unaffiliated portfolio manager. We do not allow staff members to manage their own accounts or those of their family members. Whenever possible, our portfolio managers trade employee accounts on an equal basis with all client accounts having a similar strategy and objective. Our Code of Ethics requires our officers, directors and employees to put clients' interests ahead of their own interests, and to refrain from favoring one client over any other client.

Item No. 12: Brokerage Practices***TD Ameritrade Institutional***

TD Ameritrade Institutional is the custodian and broker-dealer for most of our client accounts. We participate in the TD Ameritrade Institutional advisor program and therefore recommend that our clients maintain their accounts with TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. (collectively "TDA"), an independent and unaffiliated SEC-registered broker-dealer and FINRA/SIPC member. TDA offers services to independently registered investment advisors, including custody of securities, trade execution, clearance and settlement of transactions. We receive some benefits from TDA through our participation in TDA's advisor program.

We selected TDA as the primary custodian and broker-dealer for our client accounts after several months of due diligence and negotiations with TDA regarding the terms of our relationship. Before entering into our agreement with TDA, we interviewed several other large custodian/broker-dealers with similar advisor programs. We chose TDA because we determined that TDA's costs and benefits to us and to our clients, their level of service, trading platform, reporting, among other factors, best suited our business model, our investment strategies and our clients.

TDA Advisor Program

There is no direct link between our participation in TDA's advisor program and the investment advice we give to our clients, although our participation entitles us to receive benefits that are typically not available to TDA's retail investors, including:

- duplicate client statements and confirmations,
- research-related products and tools,
- consulting services,
- access to a trading desk serving advisor participants,
- access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts),
- the ability to have advisory fees deducted directly from client accounts,
- access to an electronic communications network for client order entry and account information, access to mutual funds with no transaction fees and to certain institutional money managers, and
- discounts on compliance, marketing, research, technology, office furnishings, practice management products or services provided to us by third party vendors.

TDA may also pay for business consulting and professional services received by us and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for our employees to attend conferences or meetings relating to TDA's advisor program or to TDA's custody and brokerage services generally. Some of the products and services made available by TDA through the program may benefit us but may not benefit our client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TDA. Some of the services made available by TDA are intended to help us manage and further develop our business enterprise.

TDA has represented to us that the benefits we, or our employees, receive through participation in the advisor program do not depend on the amount of brokerage transactions we direct to TDA. In providing these additional benefits to participants in its advisor program, however, TDA has represented that it considers the amount and profitability to TDA of the assets in, and trades placed for, each advisor's client accounts maintained with TDA. As part of our fiduciary duty to our clients, we endeavor at all times to put the interests of our clients first.

Clients should be aware, however, that our receipt of economic benefits through the TDA advisor program creates a potential conflict of interest and may indirectly influence us to choose TDA for custody and brokerage services.

Soft Dollar Credits

We do not earn soft dollar credits on any mutual fund, ETF or any other trade. We do not have any arrangement with any broker-dealer or other third party to use research, research-related products or other services provided to us on a soft dollar commission basis, nor do we intend to enter into any such arrangements in the future.

Broker-dealer Selection

In selecting or recommending broker-dealers, we do not consider whether Towneley, or its officers, directors or employees, receive or may receive client referrals from the broker-dealer or a third party. We do consider service, cost, timeliness, accuracy, error resolution and reporting, among other factors. We use TDA as our broker-dealer for mutual fund and ETF trades because TDA's online trading platform is simple and convenient to use. Since we do not pass mutual fund trading costs on to our clients, they incur no trading commissions on mutual fund trades placed through TDA.

As of the date of this Disclosure Brochure, TDA offered over 100 commission-free ETFs, many of which we use in client portfolios. We generally do not trade our ETF strategy accounts any more frequently than quarterly, which helps keep the overall cost of trade commissions down. Although lower trade commissions may be available from other broker-dealers, we have determined that the commission rate TDA charges is reasonable in relation to the total quality and reliability of the brokerage, custodial and other services TDA provides to us for the benefit of our clients.

We use TDA as our broker-dealer for individual bond trades (when applicable) because of the administrative ease of working with TDA, the familiar, easy-to-use trading platform, flat commission rate (\$25 per transaction regardless of size to purchase Treasuries at auction) and the level of service and support we receive from TDA.

Another reason that we prefer to use TDA as our broker-dealer is that TDA's trading platform integrates with our portfolio management software, while many other broker-dealers' platforms may not. The portfolio management software we use enables us to provide high quality performance and other reports that other portfolio management software providers may not offer.

Directed Brokerage

Our policy is generally to recommend that all clients establish their accounts with the same custodian (currently TDA—see additional disclosures regarding TDA above), and for the reasons discussed above, to direct brokerage to TDA as well. Not all advisors require their clients to direct brokerage to a particular broker-dealer. By directing brokerage only to TDA, we may be unable to achieve the most favorable execution of client transactions and thus may cost clients money.

On rare occasions, we may accept client instructions directing brokerage transactions to a broker-dealer other than TDA. However, we will only accept such directed brokerage instructions after we have reviewed and approved the client's written directions, request and reasons for the request, after all applicable regulatory and recordkeeping requirements have been met, and after the client has acknowledged and accepted all of the following disclosures in writing:

- Client is solely responsible for negotiating commission rates and other transaction costs with the directed broker.
- We are not required to effect any transaction through the directed broker if we reasonably believe that to do so may result in a breach of our fiduciary duties.
- The commissions borne by the client may differ from the commissions borne by other Towneley clients that

do not direct us to use a particular broker-dealer.

- Client may not necessarily obtain commission rates and execution as favorable as those that may be obtained if we were able to place transactions with other broker-dealers.
- Client may forego benefits that we may be able to obtain for our other clients through, for example, negotiating volume discounts or effecting block trades.

If the client seeks to direct brokerage for an account maintained on behalf of a retirement plan subject to the Employee Retirement Income Security Act of 1974 as amended ("ERISA") or similar government regulation, the client must monitor the services provided by the directed broker to assure that the plan continues to receive best execution and pays reasonable commissions. In addition, the client must make the following representations in writing:

- the directed broker is capable of providing best execution for the account's brokerage transactions;
- the commission rates that the client negotiated are reasonable in relation to the brokerage and other services received by the plan; and
- any benefits provided by the directed broker are for the exclusive benefit of the plan.

As part of our brokerage and best execution practices, we have adopted and implemented written best execution practices and designated individuals who are responsible for monitoring our trading practices, gathering relevant information, periodically reviewing and evaluating the services provided by broker-dealers including the quality of trade execution, trading costs, overall brokerage relationships, and other factors, and documenting their reviews.

Trade Aggregation and Allocation

We do not aggregate any open-end mutual fund trades for client accounts, as aggregation of such trades is not possible. We aggregate ETF and closed-end fund trades whenever possible so that each security is traded only once for all accounts. We cannot aggregate trades when trading for only one client's account at a time. All clients participating in an aggregated trade receive the same buy or sale price. Clients pay the same trade commission whether we aggregate their trades with those of other clients or not. See Item No. 5: Fees and Compensation for a discussion of ETF trade commissions.

Our policy prohibits any allocation of trades in a manner that our proprietary accounts, affiliated accounts, or any particular client, or group of clients, receive more favorable treatment than other client accounts. TDA executes all of our ETF trades, which clear through TDA's affiliate, TD Ameritrade Clearing, Inc. After the trades are executed, our portfolio managers use trade order management software to allocate the correct amount of shares to each client. We allocate aggregated trades the same day we place the trades. The custodian calculates the average share price for each security, which the portfolio manager then applies to all accounts. The custodian allocates trading costs among the accounts according to the number of trades executed for each account. Clients pay a fixed transaction cost of \$9.95 per ETF trade, regardless of whether their trades were aggregated or not.

See Item No. 5: Fees and Compensation, above, for an explanation of the trading commissions applicable to client accounts.

Item No. 13: Review of Accounts

Monitoring

We continually monitor performance, evaluating the funds in your portfolio to make sure that they continue to satisfy the requirements of our strategies. If a change occurs, we replace funds that no longer meet our investment criteria with funds that do. Our portfolio managers and research analysts review all accounts at least

quarterly. In addition, our financial planners will review a client's financial plan if the client so requests, or whenever a client informs the planner or portfolio manager that variables relevant to the plan have changed.

We encourage our clients to keep us informed of any changes in work, family, health or other life circumstances that might warrant a reassessment of investment goals. We also schedule annual client meetings. We strive to adhere to each client's asset allocation guidelines and to rebalance or reallocate client portfolios as needed to implement the investment strategy we have developed for the client or to adapt to changes in client needs, goals, risk tolerance or other factors.

Reporting

We send all clients the following written reports at least quarterly:

- **Portfolio Summary:** Reports performance of the portfolio as a whole, performance of the fixed income, equity and commodities components of the portfolio, and performance of several relevant indexes, all for the following periods: month-to-date, latest three months, year-to-date, one year, three years, five years and inception-to-date.
- **Portfolio Holdings:** Reports the cost and current market value of individual portfolio assets through quarter's end.

We may send additional reports to plan sponsors, institutional clients and to individual clients with multiple accounts.

Item No. 14: Client Referrals and Other Compensation

From August 2007 through October 2008, we received client referrals from TDA through our participation in AdvisorDirect, a referral program established by TDA. Although we no longer participate in the AdvisorDirect program, we continue to pay TDA an ongoing fee for each successful client referral, equal to 15% of the advisory fee that the client pays us (the "Solicitation Fee"). We also pay TDA the Solicitation Fee on any advisory fees we receive from any of a referred client's family members, including a spouse, child or any other family member who resides with the referred client if they hire us on the recommendation of the referred client. We do not charge clients referred through AdvisorDirect any fees or costs higher than our standard fee schedule, nor do we pass any portion of the Solicitation Fees we pay to TDA on to our other clients.

We are currently making payments to a former solicitor's widow for past referrals made by her late husband pursuant to a written solicitation agreement. Payments will cease upon the widow's death. We do not charge the referred clients, or any of our other clients, higher fees in order to recoup these payments.

We have programs in place to compensate our employees for referring clients to us. We currently have an arrangement with one full-time employee who receives a portion of our advisory fees for clients the employee introduces and closes. We have an arrangement with another full-time employee who receives a portion of our advisory fees based on the total value of the assets in our ETF strategies. We have a separate program for the rest of our employees in which we pay each a "finder's fee" equal to 10% of all investment management fees paid to us for a period of five years by accounts he or she refers to us. We do not charge ETF strategy clients, or any of our clients solicited by or referred to us through employees, higher fees in order to recoup these payments. Instead, we pay a portion of the advisory fees generated by each referred client account or ETF strategy client's account to the person making the referral.

Item No. 15: Custody

We never take physical possession of client assets, nor can we withdraw client assets other than as specifically authorized by the client for the payment of our advisory fees. We do not hold any client assets in our name or in bearer form. A third party independent qualified custodian holds all client cash and securities, which are registered directly in the client's name and under separate account(s) using the client's address as the address of record. By letter to us dated June 13, 2011, TDA confirmed that it has sent client account statements, at least

quarterly, to each of our clients for whom TDA maintains funds or securities. Clients should carefully review the statements they receive from TDA and compare the information in those statements to the information contained in the reports they receive from us. We urge our clients to contact us to discuss any questions they may have about information in either their TDA statements or their Towneley reports.

Direct Debiting of Client Accounts for Payment of Advisory Fees

To minimize administrative expenses, we prefer that our clients authorize the custodian to deduct our advisory fees directly from their account(s), although clients may specifically request otherwise in writing. Under applicable SEC rules, we are deemed to have custody of the account assets of those clients who authorize us to deduct our fees directly from their accounts, and the majority of our clients have given us that authorization. We have the following procedures to provide for the direct debiting of client accounts for advisory fees:

- The authority to deduct advisory fees from a client's account is included both in our investment advisory agreement, which is signed by the client and our president, and in TDA's account application form, which is signed by the client.
- We charge for our advisory services on a quarterly basis in advance. We provide each client with quarterly reports along with an invoice showing the amount of the fee for the upcoming quarter, the asset values used to calculate the fee, and the specific manner in which the fee was calculated.
- The following disclosure appears on the invoice to the client: "Per our Investment Advisory Agreement, we have instructed the custodian to remit the amount invoiced below from your account to Towneley Capital Management, Inc. Please note that the custodian does not verify the accuracy of the fees calculated; this is the responsibility of the client."
- Each quarter, we send a report to the custodian identifying the amount of the fee it should debit from each client's account(s).
- The custodian sends each client a monthly account statement reflecting all transactions during that period. The quarterly deduction of advisory fees paid to us generally appears on the following monthly statements: January, April, July and October. Occasionally the deduction occurs within the first few days of the following month. In those cases, the deduction would appear on the client's statement for the following month (February, May, August and November).
- The portfolio reports we send our clients include a notice urging clients to compare their Towneley reports to the monthly statements they receive from the custodian, and to report to us any material differences or to ask us about any other information on their custodial statements or Towneley reports.

Receipt and Return of Certain Client Checks

Within three (3) business days, we will mail directly to the custodian for deposit to the client's account any check we receive from a client that is either 1) made payable to the custodian or 2) made payable to the client and endorsed by the client (such as a tax refund check). If a client sends us a check payable to Towneley that is not for payment of advisory fees, we will return that check to the client within three (3) business days.

Trustee

Towneley's chairman and founder, Dr. Wesley McCain, serves as trustee of an irrevocable trust (Trust A) created by a long-time friend and former Towneley client for the benefit of the client's son, who is currently a Towneley client. Dr. McCain continues to serve as trustee of Trust A at the beneficiary's request and without receipt of trustee fees. Dr. McCain also serves as co-trustee of a testamentary trust (Trust B) created upon the death of another long-time friend for the benefit of her son. Trust B became a Towneley client in 2008. Dr. McCain serves as co-trustee of Trust B without receipt of trustee fees. Because he serves as trustee of Trusts A

and B at the request of long-term friends, Dr. McCain, but not Towneley, has custody of the assets in these trusts.

Dr. McCain's dual position as trustee of Trusts A and B and as chairman of Towneley creates a conflict of interest for both Dr. McCain and Towneley. Dr. McCain may have an incentive to favor Trusts A and B in the provision of advisory services and Towneley (which is co-owned by entities affiliated with Dr. McCain) has a similar incentive. We have put in place controls to address this conflict. Dr. McCain is not the portfolio manager for either Trust A or Trust B, so he cannot place trades in either account. Since Towneley uses a team approach to service client accounts, several staff persons are familiar with Trust A's and Trust B's portfolios and thus are in a position to report any unorthodox trading or other issues to Towneley's President and CCO should such issues arise.

Item No. 16: Investment Discretion

We require that our clients grant us complete discretionary authority to manage their account(s) as we deem appropriate, which includes the authority to determine the securities to be bought and sold, the amount of such securities, the broker-dealer used to effect the transaction, and the commission rates to be paid, without obtaining specific client consent and subject only to those restrictions we have agreed upon with the client in writing. This grant of authority is contained in both our investment advisory agreement, which is signed by the client and our president, and in TDA's limited power of attorney form, which is signed by the client. The client must sign both of these documents before we will assume discretionary authority to manage the client's account.

Clients may impose reasonable restrictions on the investments in their Towneley portfolio. For example, a client may request that investments in a particular asset class, such as emerging market bonds, be excluded from the client's portfolio and we will honor that request.

Item No. 17: Voting Client Securities

Unless a client specifically requests otherwise, we accept authority to vote client securities. We issue voting recommendations and cast proxy votes strictly in accordance with our pre-determined proxy voting guidelines, which we believe are in the best interests of our clients. A designated employee votes the proxies with due consideration for our clients' best interests. The designated employee certifies in writing that to the best of his or her knowledge and belief neither he, she nor the firm have a material conflict of interest with the company whose proxies are at issue. If a material conflict of interest exists, our proxy voting committee, which is composed of our president/CCO, research analysts, and compliance officer, decides how to vote.

We generally vote with management on routine issues, such as election of directors and ratification of auditors, unless circumstances indicate that to do so would not be in the best interests of our clients. In non-routine or controversial matters, we vote according to our proxy guidelines and in the best interests of our clients. Adhering to pre-determined proxy voting guidelines helps us to avoid conflicts of interest and to ensure that proxy votes are cast in accordance with the best interests of our clients. We do not accept voting directions from clients.

We periodically review our proxy voting policies and procedures to ensure that proxies are voted in the best interests of our clients. We maintain records of our proxy voting policies and procedures, proxy statements received, votes cast on behalf of clients, client requests for proxy voting information, and documents prepared by us that were material in our voting decision.

Upon request, we will provide clients with a copy of our proxy voting policies and procedures and with information about how we voted proxies for the securities in their portfolio. Clients may request such information at any time by calling us toll-free at (800) 545-4442.

Item No. 18: Financial Information

We are registered only with the SEC, and not with any state securities authority. We do not ask or require any client to prepay more than \$500 in advisory fees six months or more in advance. Therefore, the SEC does not require us to include a balance sheet with this brochure.

We do not have any financial condition that impairs, or is likely to impair, our ability to meet our contractual commitments to our clients. We have never been the subject of a bankruptcy petition.