

**Item 1 – Cover Page**

# Navigator Investments, LLC

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March 31, 2012

This Brochure provides information about the qualifications and business practices of Navigator Investments, LLC (“Navigator”). If you have any questions about the contents of this Brochure, please contact us at 401-455-1230. 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.

Navigator is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser. Additional information about Navigator is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Navigator Investments has contracted with an additional custodian, TD Ameritrade Institutional. This new relationship will allow Navigator to utilize additional technologies and investment strategies not previously available. The additional strategies involve the use of options and additional information relating thereto can be found in the Investment Strategies section of this brochure.

This Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure. Our last Brochure update was in March 2011.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Todd Lindmark, Chief Compliance Officer at 401-455-1230. Our Brochure is available on our web site at [www.navigatorinvestments.com](http://www.navigatorinvestments.com) also free of charge.

Additional information about Navigator is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Navigator who are registered, or are required to be registered, as investment adviser representatives of Navigator.

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#### Item 4 – Advisory Business

Navigator was founded in 1998 as a Rhode Island Limited Liability Company and provides its clients (individuals, business entities, trusts, estates and charitable organizations, etc.) with discretionary investment advisory services. To the extent specifically requested by a client, Navigator may provide limited consultation services to its investment management clients on investment and non-investment related matters that are generally ancillary to the investment management process. Any such consultation services shall be rendered exclusively on an unsolicited basis, for which Navigator may charge a separate or additional fee, dependant upon the scope of the services to be provided. Navigator is owned principally by Lesley W. Sheeley, II and NCG, LLC. The principal office is located in Providence, Rhode Island.

Navigator primarily provides investment supervisory services based on the client's individual needs, investment objectives and risk tolerances. Your financial advisor will work with you to help assess your personal goals, risk tolerance and any possible tax considerations that need to be integrated. Your portfolio may contain cash, equity securities, (including exchange-listed securities, securities traded over-the-counter and foreign issuers), corporate debt securities, commercial paper, municipal securities, mutual funds, U.S. government securities, options on securities as well as other investments. Navigator does permit its clients to impose restrictions on investing in certain securities or other mutually agreed upon limitations. Any such limitation must be in writing and included along with the Investment Advisory Agreement. The Investment Advisory Agreement is completed by all of Navigator's clients and describes our discretionary authority, any investment limitations, fees and other matters as they relate to the investment advisory services provided.

Navigator also provides investment management services to Pilot Investment, L.P., a private investment fund. Navigator does not participate in, or manage any wrap fee programs or accounts. Please remember to contact Navigator, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you want to impose, add, to modify any reasonable restrictions to our investment advisory services, or if you wish to direct that Navigator to effect any specific transactions for your account.

Assets under Management – as of December 31, 2011

Discretionary basis	\$103,776,912
Non-Discretionary basis	<u>\$ 72,378,805</u>
Total	\$176,155,717

## Item 5 – Fees and Compensation

The client can determine to engage Navigator to provide discretionary investment advisory services on a *fee-only* basis. Navigator’s annual investment advisory fee shall be based upon a percentage (%) of the market value of the assets placed under Navigator’s management (between 0.45% and 1.00%), as follows:

<b><u>Assets under Management</u></b>	<b><u>Annual Fee (%)</u></b>
First \$1 million	1.00%
Second \$1 million	0.85%
Next \$3 million	0.75%
Next \$5 million	0.65%
Balance	0.45%

Navigator's annual investment advisory fee shall be prorated and paid monthly, in arrears, based upon the market value of the assets on the last business day of the previous month. Navigator, in its sole discretion, may waive its annual minimum fee and/or charge a lesser annual investment advisory fee based upon certain criteria (i.e. historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, previous agreements, etc.).

Navigator allocates client investment assets primarily on a discretionary basis among various individual equity and fixed income securities, and mutual funds, in accordance with the client’s designated investment objective(s). In the event that the client requests that Navigator recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Navigator to use a specific broker-dealer/custodian), Navigator generally recommends that investment management accounts be maintained either at Charles Schwab & Co, Inc. (“*Schwab*”) or TD Ameritrade Institutional (“*TDA*”). Prior to engaging Navigator to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Navigator setting forth the terms and conditions under which Navigator shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

As discussed above, unless the client directs otherwise or an individual client’s circumstances require, Navigator shall generally recommend that either *Schwab* or *TDA* serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* and *TDA* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. Navigator primarily utilizes no transaction fee mutual funds.

However transaction fees are charged for certain no-load mutual funds; commissions are charged for individual equity and fixed income securities transactions). When beneficial to the client, individual debt or equity transactions may be effected through broker-dealers with whom Navigator or the client have entered into arrangements for prime brokerage clearing services (in which event, the client shall incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by *Schwab* or *TDA*, respectively). In addition to Navigator's investment management fee, brokerage commissions and/or transaction fees, the client will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

Both Navigator's *Investment Advisory Agreement* and the custodial clearing agreement may authorize the custodian to debit the account for the amount of Navigator's investment advisory fee and to directly remit that management fee to Navigator in compliance with regulatory procedures. In the limited event that Navigator bills the client directly, payment is due upon receipt of Navigator's invoice. The Investment Advisory Agreement between Navigator and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. The client elects whether to be billed or to have the fees deducted from their account upon completion of the Investment Advisory Agreement. Upon termination, Navigator may debit the client account for the pro-rated portion of the unpaid advisory fee based upon the number of days that services were rendered during the billing period. If unable to debit the client account for the pro-rated portion of the unpaid advisory fee, Navigator may send a bill to the address of record for the client and is due upon receipt of Navigator's invoice.

Navigator also provides investment advisory services on a fee-only basis to participant directed qualified retirement plan platforms. The annual investment advisory fee for this service is negotiated and included in the specific Investment Advisory Agreement. In addition, if participants select to utilize the Navigator managed models that are offered with the plan, there is an additional investment advisory fee. Clients in these types of plan should note that there is a potential conflict of interest if Navigator's representatives should recommend one of the Navigator Managed Models as an investment option. The additional fees associated with the managed model are for the active management of the underlying mutual funds in each of the four managed models (Conservative, Balanced, Growth and Aggressive – Navigator Managed Models).

**Cash Positions.** At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), Navigator **may** maintain cash positions for defensive purposes. All cash positions (money markets, etc) shall be included as part of assets under management

for purposes of calculating Navigator's advisory fee. Navigator's Chief Compliance Officer, Todd Lindmark remains available to address any questions that a client or prospective may have regarding the above fee billing practice.

**Financial Planning and Consulting (Stand-Alone):** To the extent specifically requested by a client, Navigator may determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis (on an hourly charge to be determined), the amount of which fee shall be dependent upon the level and scope of the service(s) required and the professional(s) rendering the service(s). This fee is negotiable and would be included in the Limited Consulting Agreement, subject to client's final approval and authorization. Prior to engaging Navigator to provide planning or consulting services, clients are generally required to enter into a Limited Consulting Agreement with Navigator setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to Navigator commencing services.

Item 12 further describes the factors that Navigator considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

Navigator does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

However, Navigator is affiliated with Pilot Investment, L.P., a private investment fund. In some cases, Navigator's affiliates have entered into performance fee arrangements with qualified clients: such fees are subject to individualized negotiation with each such client and are set forth in Pilot's offering documents (see Item 10, below, for additional information). Navigator's affiliates will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (The Advisors Act) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, Navigator's affiliates shall include realized and unrealized capital gains and losses.

Performance based fee arrangements may create an incentive for Navigator to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an

incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Navigator has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 – Types of Clients**

Navigator provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, corporations or other businesses, trusts, estates and other pooled investment vehicles.

While Navigator does not maintain a minimum required account size, it does review the overall client relationship to determine whether or not to engage as an investment advisor with the client.

**Client Obligations.** In performing its services, Navigator shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify navigator if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Navigator's previous recommendations and/or services.

**Disclosure Statement.** A copy of Navigator's written disclosure statement as set forth on Part II of Form ADV shall be provided to each client prior to or contemporaneously with the execution of the *Investment Advisory Agreement* or *Financial Planning Agreement*. Any client who has not received a copy of Navigator's written disclosure statement at least 48 hours prior to executing the *Investment Advisory Agreement* shall have five business days subsequent to executing the agreement to terminate Navigator's services without penalty.

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

### **Methods of Analysis/Investment Strategies**

When performing the below analysis, Navigator uses many different sources of information, including, financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with Securities and Exchange Commission, and company press releases. In addition, we have access and utilize information from various industry providers.



Navigator client's assets are most important; it is their wealth they are entrusting to our management. Before Navigator recommends a strategy or solution, we take the time to understand your unique goals and tolerance for risk. Our philosophy is that an active asset allocation strategy is vital to successful risk management. Risk cannot be eliminated, but it can be managed. We utilize individual equities, fixed income securities, mutual funds and alternative investments to help design a portfolio to meet your individual needs. Investing in securities involves risk of loss that clients should be prepared to bear.

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

- *Fundamental Analysis.* Navigator attempts to measure the true value of a security by looking at economic and financial factors, including the overall economy, industry conditions, and the financial condition and management of the company itself, to determine if the company is underpriced (Time to buy) or overpriced (Time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.
- *Technical Analysis.* We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement. Technical analysis would also include charting and cyclical analysis.
- *Risk Analysis and Probability Pricing Analysis.* This refers to the uncertainty of forecasted future cash flow streams, variance of portfolio/stock returns and statistical analysis to determine the probability of possible future economic states to try and minimize future negative unforeseen effects.
- *Hedge Strategy.* Hedging against investment risk means strategically using instruments in the market to offset the risk of any adverse price movements.

Navigator offers a comprehensive array of investment management services and strategies to fulfill your needs from account management utilizing individual securities to participant-

directed solutions. In addition, as a service to our clients, wealth protection vehicles are available through Navigate Wealth, LLC.

Navigator's clients have varying objectives, challenges, risk tolerances, time lines and tax liabilities. We bring a customized approach to the planning and management of your assets. Navigator investment strategies range from income oriented to aggressive growth. When reviewing the strategy with the client, they may have a shorter time horizon and this would likely require a low risk tolerance. While a client with a longer time horizon would allow for a higher risk tolerance.

Navigator seeks to deliver consistent top-tier performance generated by a thoughtful and disciplined approach to investing. We believe a dynamic allocation of capital among asset classes and industry sectors enhances returns.

Our goal is to allocate your financial resources in a manor designed to respond to your needs and achieve your goals for the future.

- Using our proprietary techniques we have designed a variety of strategies, each designed to meet different objectives for our clients.
- Our strategies are constructed beginning with a top-down examination of the ten major economic sectors. The macroeconomic analysis determines the relative attractiveness of the various areas of the economy and lead to our overall weightings in any given sector.
- The stock selection process for the Core Equity Growth strategy focuses on unearthing companies whose current and prospective valuation are attractive relative to potential earnings and revenues. Additionally, we place high value on corporate governance, management, balance sheet quality and several other fundamental criteria.
- The selection process for the Equity Income strategy is similar to the Core Equity Growth with the exception of the emphasis being placed on growth of earnings and revenues. In this strategy we are focused on dividends and the ability and prospect of companies who can maintain and increase those dividends over time (growth of income).

Your Navigator investment advisor will formulate a comprehensive investment strategy taking into consideration your risk profile and market conditions. When appropriate, we coordinate this strategic program conferring with your other advisors, such as attorneys and accountants.

**Risk Analysis and Probability Pricing Analysis.** This refers to the uncertainty of forecasted future cash flow streams, variance of portfolio/stock returns and statistical analysis to determine the probability of possible future economic states and can be used in conjunction with options trading in order to create hedging strategies to try and minimize future negative unforeseen effects. While prices and time intervals are easy enough to measure, what cannot be known with certainty is the volatility of the underlying asset, and therefore, the probability that an option will be “in the money” or by how much, before expiration. Various pricing models have been developed in an attempt to more accurately gauge the true worth of options, or to price them better initially, when they are first created. These models, however, are only as good as the assumptions used to fill in the variables.

**Hedge Strategy** - Hedging against investment risk means strategically using instruments in the market to offset the risk of any adverse price movements. In other words, investors hedge one investment by making another. Hedging, for the most part, is a technique not by which you will make money but by which you can reduce potential loss. If the investment you are hedging against makes money, you will have typically reduced the profit that you could have made, and if the investment loses money, your hedge, if successful, will reduce that loss. Hedging techniques generally involve the use of complicated financial instruments known as derivatives, the two most common of which are options and futures.

We may use short-term trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing your account(s). Short-term trading is not a fundamental part of our overall investment strategy, but we may use this strategy occasionally when we determine that it is suitable given your stated investment objectives and tolerance for risk.

Our strategies and investments may have unique and significant tax implications. While we are aware that there may be tax implications involved in any of the strategies we utilize, unless we specifically agree otherwise, and in writing, tax efficiency is generally 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.

**Equities:** There are numerous ways of measuring the risk of equity securities (also known simply as “equities” or “stock”). In very broad terms, the value of a stock depends on the financial health of the company issuing it. However, stock prices can be affected by many other factors including, but not limited to: the class of stock (for example, preferred or common); the health of the market sector of the issuing company; and, the overall health of the economy. In general, larger, more established companies (“large cap”) tend to be safer than smaller start-up companies (“small cap”) but the mere size of an issuer is not, by itself, an indicator of the safety of the investment.

**Mutual Funds and Exchange Traded Funds:** Mutual funds and exchange traded funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. The fund will have a manager that trades the fund’s investments in accordance with the fund’s investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are “no load” and charge no fee to buy into, or sell out of, the fund, other types of mutual funds does charge such fees which can also reduce returns. Mutual funds can also be “closed end” or “open end”. So-called “open end” mutual funds continue to allow in new investors indefinitely which can dilute other investors’ interests.

**Short Selling:** Short selling is very risky. Unlike a straightforward investment in stocks where you buy shares with the expectation that their price will increase so you can sell at a profit, in a “short sale” you borrow stocks from your brokerage firm and sell them immediately, hoping to buy them later at a lower price. Thus, a short seller hopes that the price of a stock will go down in the near future. A short seller thus uses declines in the market to his advantage. He makes money when the stock prices fall and loses when prices go up. The SEC has strict regulations in place regarding short selling. There is no ceiling on how much a short seller can lose in a trade. The share price may keep going up and the short seller will have to pay whatever the prevailing stock price is to buy back the shares. However, his gains have a ceiling level because the stock price cannot fall below zero. A short seller has to undertake to

pay the earnings on the borrowed securities as long as he chooses to keep his short position open. If the company declares huge dividends or issues bonus shares, the short seller will have to pay that amount to the lender. Any such occurrence can skew the entire short investment and make it unprofitable. The broker can use the funds in the short seller's margin account to buy back his loaned shares or issue a 'call away' to get the short seller to return the borrowed securities. If the broker makes this call when the stock price is much higher than the price at the time of the short sale, then the investor can end up making huge losses.

**Short Sales:** Short selling (also known as shorting or going short) is the practice of selling assets, usually securities, that have been borrowed from a third party (usually a broker) with the intention of buying identical assets back at a later date to return to the lender. It is a form of reverse trading. Mathematically, it is equivalent to buying a 'negative' amount of the assets. The short seller hopes to profit from a decline in the price of the assets between the sale and the repurchase, as the seller will pay less to buy the assets than the seller received on selling them. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets. "Shorting" and "going short" also refer to entering into any derivative or other contract under which the investor profits from a fall in the value of an asset.

**Margin:** Buying on margin means borrowing money from a broker to purchase stock. Margin trading allows you to buy more stock than you'd be able to normally. An initial investment of at least \$2,000 is required for a margin account, though some brokerages require more. This deposit is known as the minimum margin. Once the account is opened and operational, you can borrow up to 50% of the purchase price of a stock. This portion of the purchase price that you deposit is known as the initial margin. Some brokerages require you to deposit more than 50% of the purchase price. Not all stocks qualify to be bought on margin. When you sell the stock in a margin account, the proceeds go to your broker against the repayment of the loan until it is fully paid. There is also a restriction called the maintenance margin, which is the minimum account balance you must maintain before your broker will force you to deposit more funds or sell stock to pay down your loan. When this happens, it's known as a margin call. If for any reason you do not meet a margin call, the brokerage has the right to sell your securities to increase your account equity until you are above the maintenance margin. Additionally, your broker may not be required to consult you before selling. Under most margin agreements, a firm can sell your securities without waiting for you to meet the margin call and you can't control which stock is sold to cover the margin call. You also have to pay the interest on your loan. The interest charges are applied to your account unless you decide to make payments. Overtime, your debt level increases as interest charges accrue against you. As debt increases, the interest charges increase, and so on. Therefore, buying on margin is mainly used for short-term investments. The longer you hold an investment, the greater the

return that is needed to break even. In volatile markets, prices can fall very quickly. You can lose more money than you have invested.

**Options:** Are complex securities that involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. However, option investing can also be used to protect investment capital when used as a hedging strategy which is the approach primarily deployed by Navigator when using Options.

An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date (the “expiration date”). The two types of options are calls and puts:

A **call** gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires.

A **put** gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

Selling options is more complicated and can be even riskier.

The option trading risks pertaining to options buyers are:

- Risk of losing your entire investment in a relatively short period of time.
- The risk of losing your entire investment increases if, as expiration nears, the stock is below the strike price of the call (for a call option) or if the stock is higher than the strike price of the put (for a put option).
- European style options which do not have secondary markets on which to sell the options prior to expiration can only realize its value upon expiration.
- Specific exercise provisions of a specific option contract may create risks.
- Regulatory agencies may impose exercise restrictions, which stops you from realizing value.

The option trading risks pertaining to options sellers are:

- Options sold may be exercised at any time before expiration.
- Covered Call traders forgo the right to profit when the underlying stock rises above

the strike price of the call options sold and continues to risk a loss due to a decline in the underlying stock.

- Writers of Naked Calls risk unlimited losses if the underlying stock rises.
- Writers of Naked Puts risk unlimited losses if the underlying stock drops.
- Writers of naked positions run margin risks if the position goes into significant losses. Such risks may include liquidation by the broker.
- Writers of call options can lose more money than a short seller of that stock on the same rise on that underlying stock. This is an example of how the leverage in options can work against the option trader.
- Writers of Naked Calls are obligated to deliver shares of the underlying stock if those call options are exercised.
- Call options can be exercised outside of market hours such that effective remedy actions cannot be performed by the writer of those options.
- Writers of stock options are obligated under the options that they sold even if a trading market is not available or that they are unable to perform a closing transaction.
- The value of the underlying stock may surge or ditch unexpectedly, leading to automatic exercises.

Other option trading risks are:

- The complexity of some option strategies is a significant risk on its own.
- Option trading exchanges or markets and option contracts themselves are open to changes at all times.
- Options markets have the right to halt trading of any options, thus preventing investors from realizing value.
- Risk of erroneous reporting of exercise value.
- If an options brokerage firm goes insolvent, investors trading through that firm may be affected.
- Internationally traded options have special risks due to timing across borders.

Risks that are not specific to options trading include: market risk, sector risk and individual stock risk. Option trading risks are closely related to stock risks as stock options are a derivative of stocks.

**Futures:** Financial contracts obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. The primary difference between options and futures is that options give the holder

the right to buy or sell the underlying asset at expiration, while the holder of a futures contract is obligated to fulfill the terms of his/her contract. Buyers and sellers in the futures market primarily enter into futures contracts to hedge risk or speculate rather than to exchange physical goods. Futures traders are advised to only use funds that have been earmarked as pure “risk capital” since the risks are high.

### **Risk of Loss**

All investment programs carry the risk of loss and there is no guarantee that any investment strategy will meet its objective. Investing in any of the investment programs at Navigator involves risk of loss that clients should be prepared to bear. Depending on the types of securities you invest in, you may face one or more of the following investment risks:

#### **Equity Securities:**

- *Small/Mid Cap Risk:* Stocks of small or small, emerging companies may have less liquidity than those of larger, established companies and may be subject to greater price volatility and risk than the overall stock market.
- *Market Risk:* Overall stock market risks may affect the value of the investments in equity strategies. Factors such as U.S. economic growth and market conditions, interest rates and political events affect the equity markets.
- *Derivatives (options) Risk:* Options involve risks and are not suitable for everyone. Certain option trading techniques can be speculative in nature and carry substantial risk of loss, including the loss of principal.
- *Short Sale Risk:* Short sales are speculative transactions and involve special risks. In order to initiate a short position, a security must be borrowed. Strategies that execute short sales may incur a loss if the price of the security sold short increases in value between the date of the short sale and the date when we purchased the security to replace the borrowed security. Losses are potentially unlimited in a short sale transaction.

#### **Fixed Income Security Risks:**

- *Interest-rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.



- *Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- *Market Risk:* Fixed income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed income securities generally declines. On the other hand, if rates fall, the value of fixed income securities generally increases.
- *High-yield fixed-income Securities Risk:* Investments in high-yielding, non-investment grade bonds involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to make timely interest and principal payments on these securities.
- *Fixed income Risks:* Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk (prices move opposite of yields), credit risk, and market risk, which could reduce the yield that an investor receives from his or her portfolio. These risks may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets.
- *Credit Risk:* The risk that an issuer will not make payments on the securities they have issued. In addition, the credit quality of securities may lower if an issuer's financial condition changes.
- *Structured Instrument Risk:* These products often involve a higher amount of risk. The risks associated with many structured products, especially those products that present risks of loss of principal due to market movements, are similar to those risks involved with options. Structured products are intended to be "buy and hold" investments as they are not liquid instruments and may be more volatile.

**General Risks:**

- *Business Risk:* These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric

company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

- *Inflation Risk:* When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- *Diversification Risk:* Investments that are concentrated in one or few industries or sectors may involve more risk than more diversified investments, including the potential for greater volatility.
- *Financial Risk:* Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- *Liquidity Risk:* When consistent with a client's investment objectives, guidelines, restrictions and risk tolerances, Advisor may invest portions of client portfolios in illiquid securities, subject to applicable investment standards. Investing in an illiquid (difficult to trade) security may restrict its ability to dispose of investments in a timely fashion or at an advantageous price, which may limit the ability to take full advantage of market opportunities. Accounts may hold securities which are partnerships. Some partnerships are relatively liquid and may be either exchange listed or traded over-the-counter. However, most partnership securities are often illiquid and are subject to significantly less regulation than public investments.
- *Foreign Investment Risk:* The foreign investment may have limited public information available. Foreign markets may not be subject to uniform accounting, auditing and financial standards and requirements. There may also be less government supervision and regulation. They are usually less liquid and more volatile. Brokerage commissions and other transaction costs on foreign markets securities exchanges are generally higher. Dividends and interest paid may be subject to withholding and other foreign taxes, which may decrease the

net return. Foreign markets often have different clearing and settlement procedures for securities transactions. Additional risks include future political and economic developments, the possibility that a foreign jurisdiction might impose or change withholding taxes on income payable, and the possible adoption of foreign governmental restrictions such as exchange controls. Since the securities purchased in a foreign markets portfolio can be denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the portfolio.

- *Emerging Market Risk:* This is the risk of doing business in countries that are beginning to emerge with increased consumer potential driven by rapid industrial expansion and economic growth. Risks are associated with emerging markets just as there are in established markets, but because they are new or emerging markets, new challenges exist in assessing those risks including language and cultural barriers, differing business practices and business requirements, becoming knowledgeable of regulations and laws governing business, and many other new challenges.

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Navigator) will be profitable or equal any specific performance level(s).

**Please Note: Inverse/Enhanced Market Strategies.** Navigator may also utilize leveraged long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be **no assurance** that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct Navigator, in writing, not to employ any or all such strategies for his/her/their/its accounts.

Investing in securities involves risk of loss that clients should be prepared to bear.

## Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Navigator or the integrity of Navigator’s management.

- Neither Navigator, nor any of its employees, has had any civil or criminal actions brought.
- Neither Navigator, nor any of its employees, has had any administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.
- Neither Navigator, nor any of its employees, has had any proceedings before a self-regulatory organization.

## Item 10 – Other Financial Industry Activities and Affiliations

**Affiliated Private Investment Fund.** Navigator is affiliated with Pilot Investment, L.P. (the “Fund”), a private investment fund. Navigator may recommend, on a non-discretionary basis, that qualified clients allocate a portion of their investment assets to Pilot. To the extent that Navigator’s individual advisory clients qualify, and determine that an investment is appropriate given their investment objective(s) and financial situation, they may participate as limited partners of Pilot. The objective, terms and conditions for participation in Pilot are set forth in Pilot’s offering documents (discussing fees-including fees payable to the General Partner and the sub-managers engaged to manage Fund assets, conflicts of interest, risk factors, and liquidity constraints), which each prospective investor client shall receive, and shall be required to complete and submit the corresponding Subscription Agreement to the General Partner in order to demonstrate qualification for investment in the Fund.

Please Note: Because Navigator’s affiliates can earn incentive compensation from Pilot, the recommendation that a client become a Pilot investor presents a conflict of interest. No client is under any obligation to become a Pilot investor. Navigator’s Chief Compliance Officer, Todd Lindmark remains available to address any questions regarding this conflict of interest.

**Affiliated Insurance Agency/Insurance Commission Products.** Navigator is also affiliated with Navigate Wealth, LLC, a Rhode Island licensed insurance agency, and in such capacity may offer for sale, insurance-related products on a commission basis, including the sale of such products to investment advisory clients of Navigator. In addition, Navigator has certain representatives in their individual capacities serving as licensed insurance agents with various insurance companies, and may, in such individual capacities, recommend the purchase of certain insurance-related products on a commission basis to Navigator's advisory clients.

Please Note: No advisory client of the Navigator is under any obligation to purchase insurance-related products from Navigate Wealth, LLC or any of its representatives. Should any client have any questions regarding the conflict of interest resulting from Navigator's affiliated agency and/or its representatives' sale of insurance-related products, such questions should be directed to Navigator's Chief Compliance Officer, Todd Lindmark.

**Financial Planning and Consulting (Stand-Alone):** To the extent specifically requested by a client, Navigator may determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis (on an hourly charge to be determined), the amount of which fee shall be dependent upon the level and scope of the service(s) required and the professional(s) rendering the service(s). This fee is negotiable and would be included in the Limited Consulting Agreement, subject to client's final approval and authorization. Prior to engaging Navigator to provide planning or consulting services, clients are generally required to enter into a Limited Consulting Agreement with Navigator setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to Navigator commencing services.

**Non-Investment Implementation Services:** Neither Navigator, nor any of its representatives, serves as an attorney or accountant. To the extent requested by a client, Navigator may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.), including its affiliated insurance agency. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Navigator.

## **Item 11 – Code of Ethics**

Navigator has implemented an investment policy relative to personal securities transactions. This investment policy is part of Navigator's overall Code of Ethics which serves to establish a standard of business conduct for all of Navigator's Associated Persons that is based upon fundamental principles of openness, integrity, honesty and trust.

In accordance with Section 204A of the Investment Advisers Act of 1940, Navigator also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Navigator or any person associated with Navigator.

Navigator's Code of Ethics for all supervised persons of the firm describes its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things.

Navigator anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Navigator has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Navigator, its affiliates and/or clients, directly or indirectly, have a position of interest. Navigator's employees and persons associated with Navigator are required to follow Navigator's Code of Ethics. In addition, they may not put their interest above the interest of Navigator's client. Subject to satisfying this policy and applicable laws, officers, directors and employees of Navigator and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Navigator's clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Navigator will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The Code of Ethics requires pre-clearance of certain transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts

of interest between Navigator and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Navigator's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Navigator will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

The investment activities of Navigator and its affiliates (including Pilot Investment, L.P.) in the management of, or the interest in, their own accounts and other accounts they manage may present conflicts of interest that could disadvantage Navigator clients and Pilot. Navigator provides investment management services to Pilot that may follow an investment program similar or dissimilar to that of Navigator's clients. For example, while maintaining a long position in a client account, Navigator may take a short position in Pilot of the same security based on certain market conditions, typically for a short duration of time. This conflict of investment strategies may arise when Pilot utilizes its investment philosophy which may be in contradiction to the investment strategy for Navigator's clients at any given time.

The results of Pilot's investment activities may differ from those of Navigator's client's accounts, and it is possible that Pilot could sustain losses during periods in which Navigator's clients achieve profits on their trading. The opposite result is also possible. In addition, Pilot may, from time to time, enter into transactions in which Navigator or its clients have an adverse interest. Additionally, transactions undertaken by Navigator may adversely impact Pilot. Navigator may invest and trade in securities and other financial instruments for the accounts of clients other than Pilot and for its client's accounts, even if such securities and other financial instruments are the same as or similar to those in which Pilot invests and trades, and even if such trades compete with, occur ahead of or are opposite those of Pilot.

Navigator will not knowingly trade client accounts or investments in Pilot in a manner that is detrimental to either, nor will it seek to profit from its knowledge that Pilot intends to engage in particular transactions.

Navigator may have an incentive to favor one or more of their clients over Pilot, and vice versa. Navigator and its related persons will act in a fair and reasonable manner in allocating suitable investment opportunities among their client and proprietary accounts. No assurance can be given, however, that:

- (i) Pilot will participate in all investment opportunities in which other client or proprietary accounts of such persons participate,
- (ii) particular investment opportunities allocated to client or proprietary accounts other than Pilot will not outperform investment opportunities allocated to Pilot, or
- (iii) equality of treatment between Pilot, on the one hand, and other client and proprietary accounts of such persons, on the other hand, will otherwise be assured.

Subject to the considerations set forth above, in investing and trading for client and proprietary accounts other than Pilot, Navigator may make use of information obtained by it in the course of investing and trading for Pilot, and it will have no obligation to compensate Pilot in any respect for its receipt of such information or to account to Pilot for any profits earned from its use of such information, and vice versa. Navigator has a fiduciary duty to Pilot and its clients to exercise good faith and fairness in all its dealings with it and will take such duties into account in dealing with all actual and potential conflicts of interest.

The activities of Navigator may give rise to other conflicts of interest that could disadvantage Pilot. Navigator has adopted policies and procedures designed to address these potential conflicts of interest. In addition to Navigator's fiduciary duty to its clients, which requires each employee to act solely for the benefit of the clients, employees also have the duty to act in the best interest of Navigator.

It is Navigator's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Navigator will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Navigator's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Todd Lindmark at 401-455-1230.



## Item 12 – Brokerage Practices

### **The Custodians and Brokers We Use**

Navigator does not maintain custody of your assets that we manage/on which we advise, although we may be 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 TD Ameritrade Institutional Program (“TDA”), a division of TD Ameritrade, Inc. a registered broker-dealer, member FINRA, SIPC and NFA. Charles Schwab & Co., Inc. (“Schwab”), a registered broker-dealer, member SIPC, or Pershing Advisor Solutions LLC (“Pershing”), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with TDA, Schwab or Pershing. TDA, Schwab or Pershing will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use TDA, Schwab or Pershing as custodian/broker, you will decide whether to do so and will open your account with TDA, Schwab or Pershing 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. While we recommend that you place your assets with TDA, Schwab or Pershing, we may be able to manage your account at another custodian/broker and that is established on an individual basis with an account agreement that the client would complete and execute. Even though your account is maintained at TDA, Schwab or Pershing, 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 or use a custodian/broker 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)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded 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.) and willingness to negotiate the prices
- 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 or Pershing*”)

Navigator may take into account the availability of some of the foregoing products and services and other arrangements as part of a total mix of factors we consider and not solely on the nature, cost or quality of custody or brokerage services provided by TDA, Schwab or Pershing, which may create a potential conflict of interest.

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

For our clients’ accounts that TDA, Schwab or Pershing maintains, TDA, Schwab and Pershing generally do not charge you separately for custody services, (Pershing Advisor Solutions does charge an annual maintenance fee for IRA Account holders, subject to change by Pershing at their discretion) but is compensated by charging you commissions or other fees on trades that they execute or that settle into your TDA, Schwab or Pershing account. For some accounts, TDA, Schwab or Pershing may charge you a percentage of the dollar amount of assets in the account in lieu of commissions. TDA, Schwab or Pershing’s commission rates and asset-based fees applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$10,000,000, \$10,000,000 and \$ 2,500,000 respectively of their assets in accounts at TDA, Schwab and Pershing. This commitment benefits you because the overall commission rates and asset-based fees you pay are lower than they would be otherwise. In addition to commissions and asset-based fees, TDA, Schwab or Pershing 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 or settled into your TDA, Schwab or Pershing account respectively.

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 TDA, Schwab or Pershing execute the trades for your account.

We have determined that having TDA, Schwab or Pershing execute the 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 TDA, Schwab or Pershing**

TD Ameritrade Institutional is TDA's business serving independent investment advisory firms like us. Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like us. Pershing Advisor Solutions LLC is Pershing's business serving the independent advisory firms like Navigator. They all provide us and our clients with access to their institutional brokerage— trading, custody, reporting, and related services—many of which are not typically available to TDA, Schwab or Pershing retail customers. TDA, Schwab and Pershing also make 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. TDA, Schwab and Pershing'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 TDA and Schwab and \$2.5 million of their assets in accounts at Pershing. If our clients collectively have less than \$10 million in assets at TDA or Schwab or \$2.5 million at Pershing, they may charge us quarterly service fees (Schwab current cost is \$1,200). Following is a more detailed description of TDA, Schwab and Pershing's support services:

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

**Services That May Not Directly Benefit You:** TDA, Schwab and Pershing 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, including TDA, Schwab and Pershing'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 TDA, Schwab or Pershing. In addition to investment research, TDA, Schwab and Pershing also make 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:** TDA, Schwab and Pershing also offer 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

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

#### **Our Interest in TDA, Schwab or Pershing's Services**

The availability of these services from TDA, Schwab or Pershing benefits us because we do not have to produce or purchase them. We don't have to pay for TDA, Schwab or Pershing's services so long as our clients collectively maintain the respective minimum. [Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody.] The minimum requirement may give us an incentive to recommend you maintain your account with TDA, Schwab or Pershing, based on our interest in receiving TDA, Schwab or Pershing'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 TDA, Schwab or Pershing as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of TDA, Schwab or Pershing's services (see "*How We Select Brokers/Custodians*") and not TDA, Schwab or Pershing's services that benefit only us. Please refer to our Assets under Management in *Item 4 – Advisory Business*, above, and based on those amounts we do not believe that recommending our clients to collectively maintain at least \$10 million (TDA and Schwab) and \$2.5 million (Pershing) of those assets in order to avoid paying TDA, Schwab or Pershing quarterly service fees presents a material conflict of interest.

### **Execution/Soft Dollar Arrangement**

Factors that Navigator considers in recommending a particular broker-dealer/custodian to clients include historical relationship with Navigator, financial strength, reputation, execution, pricing, research, and service. Neither Navigator, nor any of its Principals or Associated Persons will receive any portion of the brokerage commissions or transactions fees charged to clients. In return for effecting securities transactions through a designated broker-dealer/custodian (TDA, Schwab and Merlin Securities, LLC), Navigator currently receives certain investment research products or services which assist Navigator in its investment decision making process for the client pursuant to Section 28(e) of the Securities Exchange Act of 1934 (generally referred to as a "soft-dollar" arrangement). Investment research products or services received by Navigator may include, but are not limited to, analyses pertaining to specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications, portfolio management systems, and statistical and pricing services. Although the commissions paid Navigator's clients shall comply with Navigator's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Navigator determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Navigator will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. Although the investment research products or services that may be obtained by Navigator will generally be used to service all of Navigator's clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. With respect to investment research products or services obtained by Navigator that have a mixed use of both a research and non-research (i.e., administrative, etc.) function, Navigator shall make a reasonable allocation of the cost of the product or service according to its use - the percentage of the product or service that provides assistance to Navigator's investment decision-making process will be paid for with soft dollars while that portion which provides administrative or other non-research assistance will be paid for by Navigator with hard dollars. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Navigator's investment management fee.

**Execution of Brokerage Transactions (when applicable)**. If requested, Navigator will arrange for the execution of securities brokerage transactions for the account through broker-dealers that Navigator reasonably believes will provide "best execution." In seeking "best

execution,” the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services including execution capability, commission rates, and responsiveness. Accordingly, although Navigator will seek competitive commission rates, it may not necessarily obtain the lowest possible commission rates for account transactions. Over-the-Counter (OTC) securities transactions for Navigator's clients are generally effected on an agency basis, which involve the services of two (2) separate broker-dealers: (1) a “dealer” or “principal” acting as market-maker; and (2) the executing broker-dealer that acts in an agency capacity for the client's account. Dealers executing principal transactions typically include a mark-up/down, which is included in the offer or bid price of the securities purchased or sold. In addition to the dealer mark-up/down, the client will also incur the transaction fee imposed by the executing broker-dealer. Navigator does not receive any portion of the dealer mark-up/down or the executing broker-dealer transaction fee. Navigator may (but is not obligated to) combine or “batch” client orders to obtain “best execution,” to negotiate more favorable commission rates or to allocate equitably among Navigator's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among Navigator's clients in proportion to the purchase and sale orders placed for each client account on any given day. The client may direct Navigator to use a particular broker-dealer (subject to Navigator's right to decline and/or terminate the engagement) to execute some or all transactions for the client's account. In such event, the client will negotiate terms and arrangements for the account with that broker-dealer, and Navigator will not seek better execution services or prices from other broker-dealers or be able to “batch” the client's transactions for execution through other broker-dealers with orders for other accounts managed by Navigator. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

In the event that the client directs Navigator to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Navigator.

### **Item 13 – Review of Accounts**

For those clients to whom Navigator provides investment supervisory services, account reviews are conducted on an ongoing basis by Navigator's designated representatives. All

investment supervisory clients are advised that it remains their responsibility to advise Navigator of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review investment objectives and account performance with Navigator on an annual basis.

Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Client's receiving investment advisory services from Navigator may also receive a quarterly report from Navigator summarizing account activity and performance. We may provide additional reports at your request. Please compare Navigator reports with your account statements received from the respective account custodian.

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

If a client is introduced to Navigator by either an unaffiliated or an affiliated solicitor, Navigator may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Navigator's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Navigator by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of Navigator's written disclosure statement as same is set forth on Part II of Form ADV together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between Navigator and the solicitor, including the compensation to be received by the solicitor from Navigator.

Please Note: Navigator does not currently maintain any active solicitor relationships. All referral fees currently paid are for legacy referrals.

#### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. In our relationship with Schwab and Pershing, they currently provide account statements on a monthly basis.

Navigator currently provides its clients with quarterly statements. Navigator urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain

securities. Please also note that the account custodian does not verify the accuracy of the advisory fee calculation.

Navigator manages certain individual client 401(k) accounts that are maintained at various custodians. Each of these clients will complete an Investment Advisory Agreement with Navigator detailing the relationship. While the participant would like for us to help manage their account and provide investment advice or recommendations to investment allocation changes, they provide certain secure information allowing Navigator to have access to their account. Navigator, while maintaining this information, on site, is **not** deemed to have custody of these assets. It is Navigator's policy to only access the participant's account to review the investments offered, their current investment allocation, making changes as appropriate, and performance information as it relates to those specific investments currently offered in the client's account. The participant's respective account would require additional documentation that would need to be authorized by the participant to withdraw or transfer funds from the account and or make changes to beneficiary information.

#### **Item 16 – Investment Discretion**

Navigator usually receives discretionary authority from the client at the outset of an advisory relationship, through the completion of Navigator's Investment Advisory Agreement, to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Navigator observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Navigator's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Navigator in writing. Client's should notify Navigator, **in writing**, if there are any changes in their personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if they want to impose, add, or modify any reasonable restrictions to our investment advisory services, or if they wish to direct Navigator to effect any specific transactions for their account.



### **Item 17 – Voting *Client* Securities**

**Proxy Voting Policy.** Based on Navigator’s client’s requests, Navigator is responsible for voting client proxies (However, the client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the account assets, including, but not limited to, class action lawsuits.). Navigator shall vote proxies in accordance with its Proxy Voting Policy, a copy of which is available upon request. Navigator shall monitor corporate actions of individual issuers and investment companies consistent with the Navigator’s fiduciary duty to vote proxies in the best interests of its clients. Although the factors which Navigator will consider when determining how it will vote differ on a case by case basis, they may, but are not be limited to, include the following a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employees and executive and director compensation. With respect to individual issuers, Navigator may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), Navigator may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. Navigator shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c) (2) under the Advisers Act. Copies of Rules 206(4)-6 and 204-2(c) (2) are available upon written request. In addition, information pertaining to how Navigator voted on any specific proxy issue is also available upon written request.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Navigator’s financial condition. Navigator has no financial commitments that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## Glossary of Terms

1. **Affiliated Accounts:** Any Member, person directly or indirectly controlled by Navigator and/or all of our current employee accounts.
2. **Charting Analysis:** In this type of analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to identify when or how long the trend may last and when that trend might reverse.
3. **Cyclical Analysis:** In this type of analysis, we measure the movements of a particular stock against the market to help predict the price change of the security.
4. **Custody:** Custody means holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them. We have custody if a related person holds, directly or indirectly, client funds or securities, or has any authority to obtain possession of them, in connection with advisory services we provide our clients.
5. **Discretionary Authority:** Our firm has discretionary authority or manages assets on a discretionary basis if we have the authority to decide which securities to purchase and sell for our clients. We also have discretionary authority if we have authority to decide which investment advisers to retain on behalf of our clients.
6. **Employee:** This term includes an independent contractor who performs advisory functions on our behalf.
7. **High Net Worth Individual:** An individual with at least \$750,000 managed by us, or whose net worth exceeds \$1,500,000, or who is a “qualified purchaser” as defined in section 2(a)(51)(A) of the Investment Company Act of 1940. The net worth of an individual may include assets held jointly with his or her spouse.
8. **Macroeconomic Analysis:** Macroeconomic analysis broadly focuses on three things: national output (measured by gross domestic product (GDP)), unemployment and inflation. Macroeconomists try to forecast economic conditions to help consumers, firms and governments make better decisions.
  - a. Consumers want to know how easy it will be to find work, how much it will cost to buy goods and services in the market, or how much it may cost to borrow money.

- b. Businesses use macroeconomic analysis to determine whether expanding production will be welcomed by the market. Will consumers have enough money to buy the products, or will the products sit on shelves and collect dust?
  - c. Governments turn to the macro economy when budgeting spending, creating taxes, deciding on interest rates and making policy decisions.
- 9. **Performance-Based Fee:** An investment advisory fee based on a share of capital gains on, or capital appreciation of, client assets. A fee that is based upon a percentage of assets that we manage is not a performance-based fee.
- 10. **Top-down examination:** An investment approach that involves looking at the "big picture" in the economy and financial world and then breaking those components down into finer details. After looking at the big picture conditions around the world, the different industrial sectors are analyzed in order to select those that are forecasted to outperform the market. From this point, the stocks of specific companies are further analyzed and those that are believed to be successful are chosen as investments.