



## FundX Investment Group, LLC

### FORM ADV PART 2A\* SEC-Required Brochure

June 2012

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\*This brochure provides information about the qualifications and business practices of FundX Investment Group, LLC. If you have any questions about the contents of this brochure, please contact us at telephone (800) 323-1510. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state authority. Additional information about FundX Investment Group is available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).

## **MATERIAL CHANGES FROM PRIOR FORM ADV PART 2A**

This amended Form ADV Part 2 contains material changes to the content of the Firm's prior brochure statement. In summary the changes are as follows:

- Addition of new disclosure of subadvisory agreement in Item 1.
- Addition of Index of ERISA Disclosures, following table of contents.

## Index of ERISA Required Disclosures

FundX may provide investment management services to retirement plans governed by the Employee Retirement Investment Security Act (“ERISA”). ERISA regulations require that specific disclosures be made to the retirement plan sponsor, administrator, trustee or other plan representative. The following index identifies the disclosures required and the location where plan representatives may find them.

Required Disclosure	Location of the Required Disclosure
Description of the services that our firm will provide to covered ERISA plans	Item 1 of this Form ADV Part 2A and in the investment management agreement at page 1.
Statement of fiduciary responsibility	Item 1 of this Form ADV Part 2A and in the investment management agreement at page 2.
Description of the direct compensation to be paid to our firm	Item 2 of this Form ADV Part 2A and in the investment management agreement at page 2.
Description of the indirect compensation we might receive from third parties in connection with providing you services	Items 9 and 11 of this Form ADV Part 2A
Description of any compensation to be shared between us and any third party or any affiliated entity.	Items 1, 2, 9 and 11 of this Form ADV Part 2A.
Compensation our firm will receive upon termination of this agreement	Item 1 of this Form ADV Part 2A and in the investment management agreement at page 3.
The cost to an ERISA plan for recordkeeping services.	Our firm does not provide record-keeping services to ERISA plans. All investment accounts records are maintained by the Plan Sponsor or Plan Administrator and the custodian of a client plan’s investment accounts, or other service provider. Reports prepared by the Firm related to the management services we provide are maintained by us pursuant to investment advisor regulations at no charge to the client plan. See Item 13 of this Form ADV Part 2A.
Description of potential conflicts of interest	Items 1, 2, 7, 8, 9, 11, 12 and 14 of this Form ADV Part 2A.
Description of the fees and expenses relating to an ERISA plan’s investment options	Item 2 of this Form ADV Part 2A.

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## 1. ADVISORY BUSINESS

Registration Status <sup>1</sup> -	Registered with the State of California in April 1993 Registered with the SEC in October 1997
Principal Owners -	Janet M. Brown Christopher T. Bayley Thomas F. Coyne Robert H. Enslow Martin R. Devault

### ADVISORY SERVICES

#### Investment Advisor to Individual Clients

FundX Investment Group, LLC (“FundX” or sometimes “the Firm” or “Advisor”) is an independent, privately owned investment advisory firm providing investment advice to our clients. We provide investment management services on a discretionary basis. These include financial goal setting, risk assessment, strategic asset allocation and the selection and management of securities and investments. Our portfolio managers conduct consultations with each new client and based upon the information provided by the client, determine the client’s investment objectives, financial circumstances, investment experience, investment time horizon and risk tolerance level. We evaluate each new client’s existing investments and, where necessary, develop a plan to transition such existing investments into or out of the client’s portfolio as required by FundX’s investment strategy. Securities transactions are supervised on a continual basis and each client’s portfolio holdings and asset allocations are reported on a quarterly basis.

#### Opening an Account

We generally require clients to place a minimum of \$2,000,000 under management with the Firm. Multiple client accounts may be aggregated to meet this minimum. Under certain circumstances, if in our discretion it is warranted, we may waive or alter the minimum account size requirement. Accounts placed with the Firm prior to the institution of the minimum account size requirement may be exempted.

FundX does not take custody of client assets. Rather, assets are held in the name of the client at an independent custodian such as Charles Schwab & Co., Inc.

In performing our services, FundX is not required to independently verify any information we receive from the client or from the client’s other professional advisors, and we are expressly authorized to rely on the information provided by our clients and their advisors. Moreover, each client is advised that it remains the client’s responsibility to promptly notify us of any change in their financial situation or

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<sup>1</sup> “Registration” means only that the Firm meets the minimum requirements for registration as an investment advisor and does not imply that California or the SEC guarantee the quality of our services or recommends them.

investment objectives that would necessitate a review, evaluation or revision by us of previous recommendations and/or services.

Clients may make additions to and withdrawals from the client's custodial account at any time. If assets are withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the billing period. Clients may withdraw account assets on notice to FundX, subject to the usual and customary securities settlement procedures. FundX designs its portfolios as long-term investments and asset withdrawals may impair the achievement of a client's investment objectives. Client accounts with significant withdrawals that reduce assets below the Firm's minimum account size may result in the Firm terminating the relationship with the client.

Additions may be made in cash or securities, provided that FundX reserves the right to decline to accept particular securities into a client's account. The Firm may consult with our clients about the options and ramifications of transferring securities. Clients are advised that when transferred securities are liquidated they may be subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

#### **Investment Advisor to Mutual Funds**

FundX serves as investment advisor or sub-advisor to the open-end mutual fund series FundX Upgrader Funds (collectively the "Upgrader Funds"), which utilize our "Upgrading" strategy. For these advisory services to the funds, FundX receives investment management fees and administrative fees from the funds and/or reimbursement of operating expenses by the funds. It is possible that some of FundX's individual clients' assets are placed in investments in one or more of the Upgrader Funds if, in the determination of the portfolio manager, such an investment is suitable for the client. In these cases, as explained below under Fees and Compensation, its management fee from individual clients invested in the funds is adjusted.

The investment objectives and risk levels of any of the Upgrader Funds may be different from the investment objectives and risk tolerance of our individual investment advisory clients and therefore individual clients' holdings may not match or approximate those of any FundX Upgrader mutual fund. Because of possible trading restrictions, fund availability and other factors, security holdings and transactions made on behalf of our investment advisory clients may be inconsistent with holdings of the Upgrader Funds.

#### **Subadvisor/Model Portfolio Advisor Arrangement**

FundX makes model portfolios available as a model portfolio advisor through Placemark Investments UMA Marketplace platform, a wealth management platform that allows advisors and clients to open accounts with their preferred custodial partner using investment products/portfolios from a large universe of leading investment management firms.

FundX may enter other subadvisory arrangements under a dual contract with other registered investment advisors.

#### **Disclosures Related To *NoLoad FundX***

FundX also is the publisher of *NoLoad FundX*, a monthly newsletter that provides commentary and rankings of no-load mutual funds and exchange traded funds (ETFs). Investment advisory clients of FundX may be invested in mutual funds recommended in the newsletter. However, FundX, in structuring individual client portfolios, may choose to use mutual funds or ETFs that may be perceived as inconsistent with the ranking or commentary concerning a particular fund in the newsletter.

#### **ASSETS UNDER MANAGEMENT AS OF DECEMBER 31, 2011**

Discretionary Assets - \$914,495,100

Non-discretionary Assets - \$13,000,000

#### **TERMINATION OF AGREEMENT**

Clients may terminate their investment management agreement at any time upon 30-day written notice to the Firm. Any prepaid fees owed to the client will be refunded on a pro rata basis determined on the amount of time expired in the calendar quarter. FundX may terminate its investment advisory relationship with a client after providing 30 days' written notification, or other mutually agreed upon terms. Any unearned investment advisory fee will be refunded to the client on a pro-rata basis, based upon the time remaining in the quarter.

If a copy of this Form ADV Part 2A disclosure statement was not delivered to the client prior to or simultaneous with a client entering into a written advisory contract with Advisor, then the client has the right to terminate the contract without penalty within five (5) business days after entering into the contract. For purposes of this provision, a contract is considered entered into when all parties to the contract have signed the contract. If the client terminates the contract on this basis, all fees paid by the client will be refunded. Any transaction costs imposed by the executing broker or custodian for establishing the custodial account or for trades occurring during those five days are non-refundable.

## **2. FEES AND COMPENSATION**

### **ADVISORY FEES**

FundX charges a one percent (1%) annual investment management fee based on a percentage of the market value of the investments held in each client's account.

Assets in the Account are included in the fee assessment unless specifically identified in writing for exclusion. The management fee is billed quarterly, in advance, and prorated for accounts established or terminated at times other than the start of the quarter.

The management fee is computed on the first day of each quarter of management by determining the market value of the assets in the client's portfolio using the following guidelines: (a) for marketable securities: the current market price provided by custodian; (b) for securities for which there exists no active market (such as real estate, gas and oil, or other illiquid securities), by using such information as FundX in good faith deems relevant to determine the value, or in the absence of such information, at cost; and (c) cash or equivalents, at dollar value.

Fees charged are not calculated on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client.

Clients typically authorize FundX to deduct our quarterly investment advisory fee directly from their custodial account. This authorization must be granted under the client's signed custodial account application. It is the client's responsibility to verify the accuracy of the fee calculation, as the custodian will not determine whether the fee is properly calculated.

#### **FUNDX UPGRADER FUNDS FEE DISCLOSURE**

For investment management fee purposes, client holdings of shares of any of the Upgrader Funds are treated differently than shares of other securities. No management fee is charged to clients on that portion, if any, of their assets that are held in FundX-managed accounts invested in any of the Upgrader Funds. However, because FundX's management fee is charged in advance each quarter, managed assets that are migrated into the Upgrader Funds may have already paid a FundX management fee, which will not be refunded to the client.

#### **SUBADVISORY FEES**

FundX receives sub-advisory management fees relating to its arrangement with Placemark Investments. The fees for Placemark Investments FundX model portfolios are based on a percentage of assets under management and generally range from 0.30% to 0.45%, contingent upon the model portfolio strategy.

#### **GENERAL FEE DISCLOSURE**

We believe our investment management fees are competitive with the fees charged by other investment advisors in the San Francisco Bay area for comparable services. However, comparable services may be available from other sources for lower fees than those charged by FundX.

Any discrepancy in fees should be communicated immediately to us within 30-days of the billing date.

FundX's fees are exclusive of and in addition to applicable brokerage commissions, custodial charges and asset-specific fees such as those charged by mutual funds or ETFs for management and administration.



FundX does not provide clients advice as to the tax deductibility of its advisory fees. Clients are directed to consult a tax professional to determine the potential tax deductibility of the payment of advisory fees.

### **CUSTODIAN AND BROKERAGE FEES**

Clients incur certain charges imposed by their custodians and other third parties such as custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients will incur charges by the executing broker-dealer in the form of brokerage commissions and transaction fees on the investment transactions entered into for their account(s). All of these charges, fees and commissions are in addition to Advisor's investment management fee.

### **FUND DISCLOSURES**

Mutual funds, closed-end funds, exchange traded funds and alternative investment funds are investment vehicles and the investment strategies, objectives and types of securities held by such funds vary widely. In addition to the advisory fee charged by FundX, clients indirectly pay for the expenses and advisory fees charged by the funds in which their assets are invested.

All such funds incur operating expenses in connection with the management of the fund. Investment funds pass some or all of these expenses through to their shareholders (the individual investors in the funds) in the form of management fees. The management fees charged vary from fund to fund. In addition, funds charge shareholders (individual investors in the funds) other types of fees such as early redemption or transaction fees. These charges also vary widely among funds. As a result, clients will still pay management fees and other, "indirect" fees and expenses as charged by each mutual fund (or other fund) in which they are invested.

Clients are provided a copy of a fund prospectus for each fund in which they invest by their custodian or by the fund sponsor rather than by FundX. As required by law, a prospectus represents the fund's complete disclosure of its management and fee structure. In addition, a fund's prospectus can be obtained directly from the fund.

### **BOND DISCLOSURE**

Clients whose assets are invested in bonds purchased directly from an underwriter may pay a sales credit or sales concession to the underwriter on the trade (in lieu of a sales commission) ranging from 0% - 2% of the par value of the bond.

## **3. PERFORMANCE-BASED FEES**

No part of FundX's investment management fee on individual client accounts or the Affiliated Funds is based upon capital gains or the capital appreciation of assets.

#### 4. TYPES OF CLIENTS

Our clients include individuals and their trusts and estates, charitable foundations, pension and profit sharing plans, banks, corporations and mutual funds.

The Firm generally requires new private advisory clients to initiate a relationship with a minimum account size of \$2,000,000, although multiple accounts for the same client may be aggregated to meet this minimum. This minimum may be waived in certain circumstances. As a result of this minimum, our private client services may not be appropriate for everyone. Particularly for smaller accounts, other investment vehicles, such as the FundX Upgrader Funds managed by our Firm, may be appropriate.

#### 5. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, RISK OF LOSS

##### METHODS OF ANALYSIS

FundX's research team employs charting, fundamental, technical and cyclical methodologies in its securities analyses. Our researchers rely both on qualitative and quantitative research techniques to choose the most promising investments for our clients. The Firm relies on leading industry research to inform our investment strategy and utilizes a variety of financial and economic sources to study various asset classes including third party academic research materials, financial newspapers and magazines, corporate rating services, and corporate annual reports, press releases, prospectuses and regulatory filings.

##### INVESTMENT STRATEGY

In consultation with each client, FundX structures a portfolio consistent with the client's stated financial goals, time frame and risk objectives. FundX generally invests client assets in no-load mutual funds and/or exchange traded funds ("ETFs") in accordance with our observation that this approach offers clients both diversification and modest expenses. The Firm employs its proprietary "Upgrading" strategy to keep clients invested in the top performing no-load funds. The Firm also utilizes advisor "load waived" funds and "I" share classes of mutual funds, which are typically not accessible to retail investors but are available to FundX as an institutional investor, on behalf of its clients.

Our Upgrading strategy limits investments to the top performing no-load funds and ETFs based on our long-established ranking system. The highest-ranking funds in any current market environment by definition have demonstrated success under current market conditions. FundX's upgrading strategy follows a logical system of investing with top fund managers *while they are performing well*, and then moving to subsequent top performers when the original managers are no longer performing at the top. This active rotation provides an effective way to participate successfully in a broad range of opportunities as they occur.

## INVESTMENT RISKS

All securities investments carry risk, including the risk that an investor may lose a part or all of his or her initial investment. Here are some of the general risks associated with parts of our investment strategy:

**General Market Risk:** This is the risk that the value of an investment will fluctuate based on the performance of the securities held. These fluctuations may cause a security to be worth less than its cost when originally purchased or less than it was worth at an earlier time.

**Management Risk:** the risk related to an investment advisor's ability to meet its investment objectives based upon the advisor's success or failure to implement investment strategies as planned.

**Foreign Securities and Emerging Market Risk:** the risk relating to political, social, and economic developments abroad and differences between U.S. and foreign regulatory requirements and market practices.

**Non-Diversification Risk:** the risk that portfolios invested only in a limited number of issuers or sectors may be considered non-diversified and subject to greater risk exposure from market factors affecting such issuers or sectors.

**Derivative Risk:** Derivative investments (such as futures or options) derive their value from the value of an underlying asset, currency or index. The value of derivatives may rise or fall more rapidly than other investments and it is possible to lose more than the initial amount invested.

**Leverage Risk:** borrowing money for leveraging will incur interest expense. FundX's strategy does not utilize "leverage," meaning that it does not recommend strategies that would necessitate a client to borrow cash against the value of their securities portfolio in order to fund additional FundX recommended purchases.

**Small Company Risk:** Securities of small companies involve greater volatility than investing in larger and more established companies.

**Concentration and Sector Risk:** Portfolios may hold a limited number of issuers; they may become more concentrated in one or more sectors at any given time, subjecting the holder to sector concentration risk.

**Interest Rate and Credit Risk:** The risk that interest rates may rise resulting in a decrease in the value of the securities held, or may fall resulting in an increase in the value of such securities.

**High Yield Risk:** The value of fixed-income securities held that are rated below investment grade are subject to additional risk factors such as increased possibility of default, illiquidity of the security and changes in value based upon public perception of the issuer.

**ETF Trading Risk:** The market price of an ETF's shares may trade at a discount to its net asset value "NAV", an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange on which the ETF's trade, which may impact the ability to sell the shares of the ETF.

**Portfolio Turnover Risk:** Portfolios may be subject to the risks of having a high portfolio turnover rate. High portfolio turnover may involve correspondingly greater expenses, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities.

**Short-term purchases:** On occasion we may determine to buy or sell securities in a client's account and hold them for less than a year. A potential risk associated with short-term trading that could affect investment performance is an increased tax obligation on the gains realized on a security's value.

**Upgrading Strategy Risk:** the Upgrading strategy seeks to invest in the top performing securities at any given time. While this approach has an extensive track record and has outperformed broad market indexes over the long term, it may not always do so. There may be periods during which the strategy underperforms its benchmarks.

**Margin Trading -** FundX does not advocate leverage as a part of its investment strategy. In rare cases, and generally only for short term financing considerations, clients may elect to assume a margin balance on their investment account. Schwab requires a percentage of assets under management to be pledged as collateral for the margin amount. Clients risk that in a falling market, the pledged collateral will be insufficient to cover a margin call by Schwab. Consequently, all margin decisions are left to the client.

**Option Trading -** Certain FundX clients engage in option trading. Option securities are complex derivatives of equity securities that incorporate certain leverage characteristics and as such carry an increased risk of investment loss.

**Alternative Asset Classes -** Many alternative investments are illiquid, which means that the investments can be difficult to trade. Consequently, such holdings may limit a client's ability to dispose of such investments in a timely manner and at an advantageous price.

## **6. DISCIPLINARY INFORMATION**

FundX has no disciplinary history and consequently, is not subject to any disciplinary disclosures.

## **7. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

FundX is an independent, fee only investment advisor, unaffiliated with any other financial institution or securities dealer or issuer. Although our clients custody their investment accounts either at Charles Schwab & Co., Inc. (“Schwab”) or Fidelity Investments (“Fidelity”), we have no legal affiliation with Schwab or Fidelity. FundX does not supervise Schwab’s or Fidelity’s brokerage activities and is not subject to their supervision.

Although we may refer our clients to other professionals such as attorneys or accountants for estate planning, tax or other matters, neither the Firm nor its principals or employees are affiliated with any law or accountancy firm.

## **8. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

FundX, its members, officers and employees and their immediate families (sometimes collectively “employees”) are permitted to buy and sell securities for their personal investment accounts. The Firm has adopted employee personal trading policies and procedures and a code of ethics to govern proprietary (on behalf of the Firm itself) and employee trading practices. FundX’s members, officers and employees are required to report all personal securities transactions on a regular basis. A copy of FundX’s employee trading policies and code of ethics is made available to clients and prospective clients upon request.

Employees may trade in the same securities traded for clients. However, it is the expressed policy of the Firm that no employee shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on investment decisions of advisory clients. Employees may personally invest in the same securities that are purchased for client trading accounts and may own securities that are subsequently purchased for client accounts. From time to time, trading by employees in particular securities may be restricted in recognition of impending investment decisions on behalf of clients.

If a security is purchased or sold for client accounts and employees on the same day, either employees will pay or receive the same price as the client account, or the client account will receive the more favorable price. If purchased or sold on different days, it is possible that employees’ personal transactions might be executed at more favorable prices that were obtained or clients.

Employees may buy or sell different investments, based on personal investment considerations, which the Firm may not deem appropriate to buy or sell for clients. It is also possible that employees may take investment positions for their own accounts that are contrary to those taken on behalf of clients. Employees may also buy or sell a specific security for their personal account based on personal investment considerations

aside from company or industry fundamentals, which are not deemed appropriate to buy or sell for clients. This can occur when securities that are not suitable for clients at the time of purchase (e.g., speculative stocks, micro-cap stocks, penny stocks), are purchased by employees. If these securities subsequently appreciate, these personal transactions could be viewed as creating a conflict of interest.

Conversely, employees may liquidate a security position that is held both for their own account and for the accounts of Firm clients, sometimes in advance of clients. This occurs when personal considerations (i.e., liquidity needs, tax-planning, industry/sector weightings) deem a stock sale necessary for individual financial planning reasons. If the security subsequently falls in price, these personal transactions could be viewed as a conflict of interest.

## **9. BROKERAGE PRACTICES**

### **RECOMMENDATION OF SCHWAB AS CUSTODIAN AND EXECUTING BROKER**

FundX recommends that clients establish brokerage accounts with Charles Schwab & Co., Inc. to maintain custody of their investment assets and to effect trades for their accounts. Schwab is an SEC registered broker-dealers regulated by the Financial Industry Regulatory Authority (“FINRA”) and a member of the Securities Investors Protection Corporation (“SIPC”). Schwab is independently owned and operated and not affiliated with FundX and does not supervise or otherwise monitor FundX’s investment management services to its clients.

Our evaluation of Schwab considered a number of factors, some of which are transaction fees, custodial fees charged for holding securities, commission rates, interest charges on debit balances and interest credits on credit balances, quality of execution and record keeping and reporting capabilities. The services provided by Schwab include monthly account statements to clients.

Schwab provides FundX with access to institutional trading and custody services, which typically are not available to retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a minimum percentage of the advisor's client assets is maintained in accounts at Schwab, but are not otherwise contingent upon FundX committing to any specific amount of business (in the form of either assets in custody or trading). Schwab’s services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Schwab makes available to FundX other products and services that benefit FundX but may not benefit its clients. Some of these other products and services assist FundX in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and

account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of FundX's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of FundX's accounts, including accounts not maintained at Schwab. Schwab also makes available to FundX other services intended to help FundX manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services to FundX by independent third parties. It may discount or waive fees they otherwise would charge for some of these services or pay all or a part of the fees of a third-party providing these services to FundX. Schwab may provide other benefits such as educational events or business entertainment to FundX personnel.

FundX's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to FundX of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab to FundX's clients, which may create a potential conflict of interest.

#### **DIRECTED BROKERAGE**

In a limited number of cases, clients may direct FundX to place all orders for securities transactions with a specific broker-dealer (directed brokerage). In these cases, FundX is not obligated to, and will generally not solicit competitive bids for each transaction or seek the lowest commission rates for the client. As such, the client may pay higher commission costs, higher security prices and transaction costs than it otherwise would have had it not directed FundX to trade through a specific broker. In addition, the client may be unable to obtain the most favorable price on transactions executed by FundX as a result of FundX's inability to aggregate/bunch the trades from this account with other client trades.

Furthermore, the client may not be able to participate in the allocation of a security of limited availability (such as an IPO) for various reasons, including if those new issue shares are provided by another broker or dealer. As a result of the special instruction, FundX may not execute client securities transactions with brokers that have been directed by clients until non-directed brokerage orders are completed. Accordingly, clients directing brokerage may not generate returns equal to clients that do not direct brokerage.

Due to these circumstances, there may be a disparity in commission rates charged to a client who directs FundX to use a particular broker and performance and other differences from other similarly managed accounts. Clients who direct brokerage should understand that similar brokerage services may be obtained from other broker-dealers at lower costs and possibly with more favorable execution.

## **BEST EXECUTION**

FundX is not obligated to obtain the best net price or lowest brokerage commission on any particular transaction. Rather federal law requires investment managers to use their reasonable best efforts to obtain the most favorable execution for each transaction executed on behalf of client accounts.

In selecting broker-dealers, FundX's primary objective is to obtain the best execution. Expected price, brokerage commissions and other transaction costs are principal factors, but broker selection also takes account of other factors, including the execution, clearance and settlement capabilities of the broker-dealer, the broker-dealer's willingness to commit capital, the broker-dealer's reliability and financial stability, the size of the particular transaction and its complexity in terms of execution and settlement, the market for the security, the value of any research and other brokerage services provided by the broker-dealer, and the cost incurred by placing prime brokerage trades in client accounts.

Based upon an evaluation of some or all of these factors, FundX may execute client trades through broker-dealers that charge fees that are higher than the lowest available fees. FundX may select broker-dealers whose fees may be greater than those charged for similar investments if FundX determines that brokerage services and research materials provided by that broker-dealer warrant the payment of higher fees.

FundX reviews transaction results periodically to determine the quality of execution provided by the various broker-dealers through whom FundX executes transactions on behalf of clients.

## **SOFT DOLLAR ARRANGEMENTS AND POTENTIAL CONFLICTS**

FundX may receive from an executing broker or allow a broker to pay for certain research or brokerage services, known as "soft dollar" brokerage services and research. Currently, the Firm receives research from Schwab, Fidelity and Israel A. Englander through soft dollar arrangements.

"Soft dollars" refers to the use of brokerage commissions on client trades to pay for the soft dollar research or brokerage services received. Because many of these services benefit FundX in conducting its advisory business, and because the soft dollars used to acquire them are assets of its clients (in the form of commissions), FundX could be considered to have a conflict of interest in allocating client brokerage business, in light of a potential incentive to effect more transactions than it might otherwise in order to obtain those benefits.

Although FundX receives soft dollar services and research, it is the Firm's policy is to limit its use of soft dollar arrangements to those falling within the safe harbor of Section 28(e) of the Securities and Exchange Act of 1934, as amended. To be protected under Section 28(e), FundX must, among other things, determine that commissions paid are reasonable in light of the value of the brokerage and "research" services and



products acquired. Section 28(e)'s "safe harbor" protects the use of client soft dollars even when the research and brokerage services and products acquired are used in making and implementing investment decisions and transactions for other clients. Only *bona fide* research and brokerage products and services that provide assistance to FundX in the performance of its investment decision-making responsibilities are permitted.

Soft dollar research and services may include among others, economic and market information, portfolio strategy advice, proxy voting services, industry and company comments, technical data, recommendations, research conferences, general reports, periodical subscription fees, consultations, performance measurement data, on-line pricing, news wire charges, quotation services, computer hardware and software. FundX may receive soft dollar credits based on principal, as well as agency, securities transactions with brokerage firms or direct a brokerage firm that executes transactions to share some of its commissions with a brokerage firm that provides soft dollar benefits to FundX.

With respect to certain computer equipment and software used for both research and non-research purposes, FundX may allocate the costs of such products between their research and non-research uses, and use soft dollars to pay only for the portion allocated to research uses.

FundX may pay a broker a brokerage commission in excess of that which another broker might charge for effecting the same transaction in recognition of the value of the brokerage, research, other services and soft dollar relationships that broker provides. In such a case, however, FundX determines in good faith that such commission is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, viewed in terms of either the specific transaction or FundX's overall responsibilities to the portfolios over which it exercises investment authority. An account may, however, pay higher brokerage commissions than are otherwise available or may pay more brokerage commissions based on account trading activity. In addition, the research and other benefits resulting from a brokerage relationship benefit all accounts managed by FundX or FundX's operations as a whole, including clients who direct FundX to use a broker that does not provide soft-dollar benefits. FundX's relationships with brokerage firms that provide soft dollar services may create conflicts of interest, both in allocating brokerage business between firms that provide soft dollar services and firms that do not, and in allocating the costs of mixed-use products between their research and non-research uses. These conflicts of interest may be influential to the extent that FundX uses soft dollars to pay expenses it otherwise would be required to pay itself.

FundX may, on occasion, be the recipient of unsolicited discounts on software and other services. The discounts are generally offered to all firms who fit a common profile and FundX is not offered such discounts because of a particular event or request. Such discounts are accepted with the intent to benefit all clients and the value of these

discounts is not considered in the process of selecting securities to purchase for client accounts.

FundX routinely considers the amount and nature of the research products and services provided by brokers as well as the extent to which such products and services are relied upon, and will attempt to allocate a portion of its brokerage business on the basis of that consideration. In addition, broker-dealers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocations, but may be expected to exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above. In no instance will a broker-dealer be precluded from receiving business simply because it has not been identified as providing research products and services, although FundX may not be willing to pay the same commission to such broker as FundX would have paid had the broker provided research products and services.

#### **AGGREGATION OF CLIENT TRADES**

FundX may combine transaction orders on behalf of multiple clients and allocate the securities or proceeds on an average price basis among the various participants in the transactions. FundX and/or its associated persons may participate in such aggregated orders.

While FundX believes combining transaction orders in this way should, over time, be advantageous to all participants, in particular cases the average price could be less advantageous to a particular client than if such client had been the only client effecting the transaction or had completed its transaction before the other participants. There may be circumstances in which transactions on behalf of FundX or its associated persons may not, under certain laws and regulations, be combined with those of some of FundX's other clients. In such cases, neither FundX nor any associated person will effect transactions in a security on the same day as clients until after the clients' transactions have been executed.

When orders are aggregated, the price paid by each account is the average price of the order. Transaction costs are allocated to each client by the client's custodian according to the client's custodial agreement. It is our policy that trades are not allocated in any manner that favors one group of clients over another over time. Client transactions may be aggregated according to custodial relationship in consideration of "trade away" charges that may be imposed if trades are directed to a non-custodial broker-dealer for execution. Aggregated trades placed with different executing brokers may be priced differently.

In the case of exchange traded funds (ETFs), trades to buy or sell shares may be executed in multiple lots over the course of a trading day. In order that all accounts receive the same average price per share, trades are aggregated and shares or proceeds are allocated across client accounts.

Because each client portfolio is managed separately, FundX may continue to hold a security in one client account while selling it for another client account. This occurs when client investment guidelines or risk tolerance mandate a sale for a particular client. In some cases, consistent with client objectives and risk, the Firm may purchase a security for one client while selling it for another. Also, client trades may be executed at different times and at different prices consistent with specific client objectives, risk tolerance and cash flows.

#### **ALLOCATION OF OPPORTUNITIES AND POTENTIAL CONFLICTS**

Very rarely, we may be presented with an investment opportunity for our clients of a security that is of limited availability. Because we manage more than one client account, there may be a conflict of interest related to the allocation of such investment opportunities among all accounts managed by the Firm. We attempt to resolve all such conflicts in a manner that is generally fair to all of clients over time. We may give advice and take action with respect to any of our clients that may differ from advice given or the timing or nature of action taken with respect to any other client based upon individual client circumstances. It is our policy, to the greatest extent practicable, to allocate investment opportunities over a period of time on a fair and equitable basis relative to all clients. The Firm is not obligated to acquire for any client account any security that the Firm or its owners, officers, employees or affiliated persons may acquire for their own accounts or for the account of any other client, if in the discretion of the portfolio managers, based upon the client's financial condition and investment objectives and guidelines, it is not practical or desirable to acquire a position in such security for that account.

#### **10. REVIEW OF ACCOUNTS**

Client accounts are assigned for management among the Firm's portfolio managers. Portfolio managers meet at least monthly to review markets, interest rates, the economy and mutual fund rankings to decide which investments should be bought, sold or held. In managing client portfolios, portfolio managers handle all client contacts, portfolio reviews and trade reviews. Portfolios are reviewed monthly and as needed in response to changes in market conditions. The number of accounts assigned to a particular portfolio manager varies, based upon the nature of the client account and administrative obligations.

We send a separate report to each client at least quarterly, showing the current asset allocation of the account and a summary of assets held in the account. Clients are advised to regularly compare the assets and holdings listed on their FundX account report with those listed on their custodian's monthly account statements.

Portfolio managers are available by telephone and for in-person meetings at a mutually agreed time and location.

## **11. CLIENT REFERRALS AND OTHER COMPENSATION**

FundX does not pay referral fees to any third party firms or individuals for recommending the Firm to prospective individual clients. FundX does pay fees to a third party firm for referring investors to the Upgrader Funds. Neither the Firm nor its employees are paid referral fees by any third party for referring clients to their businesses. We do not direct brokerage transactions to any broker-dealer in exchange for receiving client referrals.

FundX employees are not paid “sales awards” or other prizes for referring clients to the Firm.

## **12. CUSTODY OF CLIENT ASSETS**

FundX does not maintain physical custody of client funds or securities. Clients are required to set up their investment accounts with a “qualified custodian,” namely a broker dealer, bank or trust company. FundX is unable to take even temporary possession of client assets for the purpose of transferring them to the client’s account. Each client has a direct relationship with their custodian and is responsible for making deposits to and withdrawals from their account as necessary. The Firm is given the authority to receive payment of its management fees directly from the account, but it is not authorized to make any other withdrawals or to transfer money out of the account to a third party.

### **Disclosures Related to Custodians**

Fidelity and the Schwab Advisor Services Division of Schwab act as custodians and executing broker-dealers for FundX clients. Schwab and Fidelity are independently owned and operated and not affiliated with FundX and do not supervise or otherwise monitor FundX’s investment management services to its clients.

For FundX’s client accounts maintained in their custody, Schwab and Fidelity generally do not charge separately for custody but are compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through them or that settle into client accounts that are held with them. In most cases, trade executions for client accounts custodied at Schwab will be made by Schwab and those held at Fidelity will be made by Fidelity, to avoid “trade away” charges otherwise imposed by them for trades executed at other broker-dealers. In cases where a desired security is not available for purchase or sale through the custodial broker, and in light of FundX’s best execution evaluation, certain executions may be made at a different broker-dealer.

Schwab and Fidelity may charge slightly different fees for their services as custodian and broker-dealer. Clients are advised to discuss and review applicable charges with FundX.

Schwab and Fidelity send account statements directly to the client (or to an independent third party representative designated by the client), no less than monthly, showing all funds and securities held, their current value and all transactions executed in the client's account, including the payment to FundX of its investment management fees.

### **13. INVESTMENT DISCRETION**

Clients appoint FundX as their investment advisor and grant full trading and investment authority over their assets at the time they establish their investment accounts at Schwab or Fidelity. Subject to the Firm's investment strategy and the client's investment objectives, our portfolio managers are given full discretion to determine:

1. Types of investments;
2. Which securities to buy;
3. Which securities to sell;
4. The timing of any buys or sells;
5. The amount of securities to buy or sell; and
6. The broker-dealer to be used in the transaction; and

This discretion may be limited by client investment guidelines and by any investment restrictions set by the client. Where possible, the Firm will attempt to negotiate the commission rates at which transactions for client accounts are effected, with the objective of attaining the most favorable price and market execution for each transaction.

Except in the case of directed brokerage instructions, client securities transactions generally are executed through the custodian of their account to avoid "trade away" fees for trades that are executed at other broker-dealers. In some cases, a particular security may be not be available through the client's custodian or available only under execution parameters or at an overall cost that makes the use of an alternative executing broker more advantageous for that transaction. In such cases, the portfolio managers have the discretion to select the broker to execute the trade.

### **14. VOTING CLIENT SECURITIES**

FundX accepts and exercises proxy voting authority from clients with respect to client securities. Applicable law states that it is a fraudulent, deceptive or manipulative act for the Firm to exercise voting authority with respect to client securities, without first adopting and implementing written policies and procedures that are reasonably designed to ensure that proxies are voted in the best interest of

its clients. FundX has adopted such policies and procedures and makes them available to any of its clients upon its receipt of a written request from the client.

#### **15. STATEMENT OF FINANCIAL CONDITION**

FundX does not require or solicit prepayment of its management fees from clients six or more months in advance. There are no adverse conditions related to the Firm's finances that are likely to impair its ability to meet its contractual commitments to its clients. The Firm has not been the subject of a bankruptcy filing in the last ten years.