

## CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

### CLIENT BROCHURE

**Capital Investment Management, Inc.**

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*This brochure provides information about the qualifications and business practices of Capital Investment Management, Inc. This is the initial version of the Client Brochure, future versions will note material changes. If you have any questions about the contents of this brochure, please contact us at 303-221-1000 and/or [cpelley@cimcodenver.com](mailto:cpelley@cimcodenver.com). 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.*

*Additional Information about Capital Investment Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*Capital Investment Management, Inc. is a Registered Investment Advisor. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.*

## Table of Contents

<b>Item 4 - Advisory Business.....</b>	<b>3</b>
<b><u>Item 5 - Fees and Compensation .....</u></b>	<b>6</b>
<b><u>Item 6 - Performance-Based Fees and Side-By-Side Management .....</u></b>	<b>9</b>
<b><u>Item 7 - Types of Clients.....</u></b>	<b>10</b>
<b><u>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.</u></b>	<b>11</b>
<b><u>Item 9 - Disciplinary Information .....</u></b>	<b>13</b>
<b><u>Item 10 - Other Financial Industry Activities and Affiliations .....</u></b>	<b>14</b>
<b><u>Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</u></b>	<b>15</b>
<b>Item 12 - Brokerage Practices .....</b>	<b>17</b>
<b><u>Item 13 - Review of Accounts .....</u></b>	<b>18</b>
<b><u>Item 14 - Client Referrals and Other Compensation .....</u></b>	<b>19</b>
<b><u>Item 15 - Custody .....</u></b>	<b>20</b>
<b><u>Item 16 - Investment Discretion .....</u></b>	<b>21</b>
<b><u>Item 17 - Voting Client Securities .....</u></b>	<b>22</b>
<b><u>Item 18 - Financial Information .....</u></b>	<b>23</b>
<b>Item 19 - Requirements for State-Registered Advisers.....</b>	<b>24</b>

## **Item 4. Advisory Business**

Capital Investment Management, (CIMCO) is a financial advisory firm that has been in existence for over ten years and provides financial planning and asset management services. Christopher B. Pelley is the Managing Director/Owner and Chief Compliance Officer. CIMCO As of January 1, 2012, CIMCO had approximately \$82.6 million of assets under management, all of which are managed on a discretionary basis.

CIMCO takes a personal approach to gathering the necessary data, including a risk questionnaire, in order to tailor advisory services to the individual needs of clients. Clients may impose restrictions on investing in certain securities or types of securities.

CIMCO has no wrap fee arrangements as an advisor or sponsor.

### **Financial Planning**

Capital Investment Management, Inc. provides financial planning services consistent with your individual financial and tax status, risk tolerance and investment objectives.

CIMCO may provide general non-securities advice on topics that include:

- tax planning
- budgetary planning
- estate planning
- business planning
- retirement planning
- fringe benefit analysis

If you are interested in this service, you may receive an inflation adjusted income analysis report and/or a 401(k) portfolio analysis report.

You are under no obligation to use CIMCO or associated persons to implement the advice. However, if you choose to implement CIMCO's advice and/or the advice of associated persons through one or more of our programs disclosed in this document, or through associated persons in their separate capacities as registered representatives or independent insurance agents, we may waive or reduce any financial planning and/or consultation fee, as a result of other fees and/or commissions being earned.

We encourage you to work closely with your CPA, attorney, mortgage broker, and/or career counselor when implementing your financial plan. If you do not currently have a CPA, attorney, mortgage broker, and/or career counselor, we can assist you in selecting one at your request.

Unless otherwise stated, your agreements with CIMCO are for a period of one year. Either party may terminate services at anytime by submitting written notice to all appropriate parties. Termination will be effective upon receipt of such notice. If services are terminated within five (5) business days of executing the client agreement, services will be terminated without penalty (no fees due). After the initial five (5) business days,

you may be responsible for any hours expended by the adviser and/or its associated persons prior to receipt of such notice of termination

### **Asset Management Services**

CIMCO provides asset management services through these programs: the Independent Capital Management Program (ICMP), the Market Timing Service and SEI.

Capital Investment Management, Inc. offers the **Independent Capital Management Program (“ICMP”)** pursuant to an agreement between us and you, the client. ICMP is a program designed to reposition or reallocate your assets based on an asset allocation model developed by CIMCO. An appropriate allocation will be determined through a comprehensive interview, including a discussion regarding your stated investment objectives, financial condition, tax situation, time-horizon and risk tolerance.

The program involves investment supervisory management services that encompass various investment objectives to enable you to personalize your investment goals. The program focuses on the construction of your portfolios composed primarily of various mutual funds purchased with no-load or at Net Asset Value (NAV) and variable annuity sub-account allocations.

The ICMP program may be provided on a discretionary or non-discretionary basis at your option. If who choose to provide us with discretion, you have agreed to allow us to buy and sell securities without your prior knowledge. You will receive copies of confirmation statements as well as monthly account statements that summarize all account activity for the previous month.

We also offer a service to clients called the **Market Timing Service** pursuant to an agreement between Capital Investment Management, Inc. and the client. This is a service designed to reposition or reallocate the client’s assets based on a market timing model. Based upon market timing signals obtained from any other sub-advisor deemed suitable, we will trade client portfolios on either a discretionary or non-discretionary basis at the client’s option. These portfolios generally consist of a portfolio of suitable equity and fixed income investment vehicles. The service focuses on the construction of client portfolios composed primarily of various mutual funds purchased with no-load or at Net Asset Value (NAV) and variable annuity sub-account allocations. Once the basic asset allocation model is determined, assets may be reallocated at any point in time as appropriate. Reallocation of assets will trigger taxable events except where IRA accounts, 401(k), 403(b) accounts or other qualified retirement plans or accounts are involved.

Clients who contract for the Market Timing Service are provided with Quarterly Reports indicating the following information:

- (1) all asset class positions
- (2) the specific investments in each asset class
- (3) the dollar amount invested in each investment.

The **SEI Asset Management Program (“SEI Program”)** is an institutional asset allocation program that CIMCO uses in the management of your account assets. We will assist you in the establishment of a SEI Program Account (the Account) at SEI Trust Company (SEI). All account transactions will be processed and cleared through SEI.

The SEI Program uses asset allocation portfolios developed by SEI Investments. The portfolios consist of SEI Family of Institutional Mutual Funds (Mutual Funds) and other securities approved by SEI to be held in an Account. We will provide SEI with the asset allocation policy (Asset Allocation Policy) that you select for this particular account. We will direct SEI to reallocate the client’s investments in accordance with your Asset Allocation Policy. In addition, we will direct SEI to rebalance the investments within the Account at least quarterly, so that the market value of the shares of each mutual fund held in the Account is the same percentage of the total market value of the Account as required by your Asset Allocation Policy. Custody of all SEI Program Accounts is held at SEI.

CIMCO emphasizes the unrestricted right of clients to decline to implement any advice rendered, in whole or part. Where we are granted discretionary authority of the client’s accounts, clients are welcome to set investment parameters and/or limitations in writing and such direction is followed until such time the client’s instructions are amended in writing.

## Item 5. Fees and Compensation

For management of Client's investment account, Client will compensate Advisor for all services furnished under the 'Investment Advisory Client Service & Fee Agreement' by the payment of fees (Management Fees) calculated as a percentage of assets under management. Management fees will not exceed a 2% annual fee. Management fees will be charged in arrears and are calculated using the ending value of the account for the previous quarter. Client will provide the custodian of Account with written authorization to have fees automatically deducted from the account and paid to Advisor. In addition to the Management Fees for advisory services, the Account may be assessed transaction charges to cover the costs associated with trade execution. Management Fees and charges will be noted on Client's statement or confirmation. Client understands and agrees that Client may incur certain charges imposed by third parties other than Advisor or TD Ameritrade in connection with investments made through the Account, including but not limited to no-load mutual funds; 12(b) 1 distribution fees, certain deferred sales charges on previously purchased mutual funds, and IRA and Qualified Retirement Plan Fees. Accounts at the custodians are billed a termination fee of \$100 per fund per account.

Our fee schedule is outlined as follows:

### Independent Capital Management Program (ICMP) and SEI Asset Management Program

#### Equities

< \$999,999	1.00 % of Assets Under Management
> \$1,000,000	0.75 % of Assets Under Management
> \$2,000,000	Negotiable

#### Fixed Income

< \$999,999	0.50 % of Assets Under Management
> \$1,000,000	0.25 % of Assets Under Management
> \$2,000,000	Negotiable

### Market Timing Service and Alternatives

#### TD Ameritrade

< \$999,999	2.00 % of Assets Under Management
> \$1,000,000	1.50 % of Assets Under Management
> \$2,000,000	Negotiable

#### Variable Annuities

< \$999,999	1.00 % of Assets Under Management
> \$1,000,000	0.75 % of Assets Under Management
> \$2,000,000	Negotiable

CIMCO's financial planning fees start at \$2,500. Financial planning and/or consultation fees will be due and payable upon presentation of the financial plan and/or completion of the consultation service. If a financial planning fee is paid during the process, that fee will be deducted from the first year investment advisory fees.

The above listed fees shall be deducted from the client's account in accordance with the Fee Agreement on a calendar quarter basis. Clients will be required to provide the custodian with written authorization for Management Fees to be automatically deducted from the account. The Adviser will send, to client, a copy of the invoice at the same time it is sent to the custodian. Additionally, the invoice will include the formula used to calculate the fee, the amount of assets under management the fee is based on and the time period covered by the fee. The client shall have the option of paying the fee directly to us. If the client chooses this option, the fee shall be payable upon receipt of a written invoice

In addition to the Management Fees for advisory services, if you utilize the Market Timing service (discussed in Section 1 – Advisory Services) the account may be assessed transaction charges to cover the costs associated with trade execution. The Market Timing service is not a “wrap program” in that clients are responsible for paying any and all transaction costs, including, but not limited to, customary ticket charges, SEC fees and postage and service fees. Market Timing clients will receive copies of confirmation statements as well as monthly account statements that summarize all account activity for the previous month.

You may also incur certain charges imposed by third parties other than CIMCO, its associated persons, Schwab, TD Ameritrade or the variable annuity companies in connection with investments made through the Account, including but not limited to no-load mutual funds; and IRA and other qualified retirement plan fees.

All Management Fees will be deducted by the custodian and paid to CIMCO or its associated persons. Clients will receive notification prior to Management Fees being deducted from the account and Management Fees and charges will be noted on the client's statement or confirmation. If there are not enough funds in the client's money market account to cover the quarterly fee, mutual fund positions in discretionary client account may be liquidated to cover the cost of the quarterly fee.

Either party may terminate services by submitting written notice to all appropriate parties. Termination will be effective upon receipt of such notice. If you terminate services within five (5) business days of executing the agreement, no fees will be charged to your accounts. After the initial five (5) business days, Management Fees will be charged to your accounts on a prorated basis based on the number of days of services provided prior to receipt of notice of termination. We will have a period of up to three (3) days from receiving notice of termination to terminate the account. Termination of services will not affect the liabilities or obligations of the parties arising out of transactions initiated prior to termination.

A portion of the advisory fees paid to CIMCO by an advisory client may be paid by us to other investment advisors with whom Capital Investment Management, Inc. has either entered into, or may enter into, a service agreement or other professional alliance involving services rendered for client portfolio and which provide for fee sharing.

SEI Program Management Fees (Management Fees) are payable quarterly, in arrears, based on assets under management at the end of the quarter. Management Fees are automatically deducted from your Account. Each quarter, SEI will send you an account

statement that will include a Management Fee Notification, which will show the computed fee being deducted later in the period from your Account. Management fees are paid to the adviser. You may terminate the SEI Program Account at any time by notifying us. Termination will be effective upon receipt of such notice. If services are terminated within five (5) business days of executing the client agreement, services will be terminated without penalty. After the initial five (5) business days, you may be responsible for payment of fees for the number of days of service that were provided by adviser prior to receipt of the notice of termination.

The maximum total advisory service fees charged to you may not exceed 1.75%. SEI Trust Company may charge a separate custodial fee for the custody services it provides the Account. Mutual Funds held in the Account pay their own advisory fees and other expenses, which are explained in each Mutual Fund's prospectus. These fees and expenses are separate charges from the Account management fees.

For Financial Planning services, Capital Investment Management charges \$250 per hour. This fee may be waived at the discretion of the company.

If a fee or a portion of a fee needs to be refunded for any reason, CIMCO's general policy is to credit the amount of money to be refunded as a credit against fees owed in the following quarter.

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

This section is not applicable.

## **Item 7. Types of Clients**

Capital Investment Management, Inc. provides advisory services to the following types of clients:

- Individuals and/or households
- Trusts
- Employer Sponsored Plans (401(k)s

Generally we have a minimum account size of \$500,000.00, but will consider exceptions on a case by case basis.

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

Capital Investment Management, Inc. uses a blend of active and passive in-house managed strategies, as well as active and passive third party managers approved and authorized by our broker-dealer.

Our in-house strategies include a momentum/ relative strength strategy; and a high yield bond strategy. In general, the firm looks for strategies with excellent long-term returns and with solid track records of managing risk in a broad range of market conditions and investor circumstances. The following is a brief description of each in-house strategy:

- Momentum/ relative strength strategy: uses a ranking system provided by a third party newsletter. Buy and sell decisions are based on keeping exposure to mutual funds that are exhibiting high relative strength versus its peers and the market as a whole, as well as rotating out of mutual funds that are exhibiting relative weakness. The strategy also has the ability to add or reduce long exposure and add or reduce short exposure based on relative strength of the major asset classes.
- High yield/ bond strategy: invests in high yield mutual funds, but has the opportunity to move 100% to cash if market conditions are unfavorable. The buy and sell decisions are based on recommendations from a third party money manager.

CIMCO has an Investment Analyst on staff to supplement the investment expertise of its principals. The firm has a thorough due diligence process, including a rigorous screening process based on variables such as long-term return, lower-than-average standard deviation, manager tenure, lower-than-average expense-ratio, assets under management. In addition to discussions with portfolio managers and analysts directly. However, investing in securities does involve the risk of loss that clients should be prepared to bear.

An investment in CIMCO's models or with third party money managers, like any investment, has risks. The past performance of these models and of third party money managers is no indication of future performance. The values of these models fluctuate and clients risk the possibility of losing money. The principal risks of investing in the Fund are those associated with:

- Investing in Affiliated Underlying Funds or Third Party Managers. Clients' assets are invested primarily in shares of underlying funds or money managers, and the investment performance of the clients' assets are directly related to the investment performance of the underlying funds or money managers in which CIMCO invests.
- Asset Allocation. Neither CIMCO nor underlying funds or third party money managers can offer any assurance that the asset allocation of the clients will either maximize returns or minimize risks. The value of a client's investment may decrease if CIMCO's, underlying funds', or the third party manager's judgment

about the attractiveness, value or market trends affecting a particular asset class, investment style or underlying fund is incorrect.

We are not a frequent trader of equity positions, and do not recommend equities that involve significant or unusual risks.

## **Risks.**

There is principal and material risks involved which may adversely affect the account value and total return. There are other circumstances (including additional risks that are not described here) which could prevent your portfolios from achieving its investment objective. It is important to read all the disclosure information provided and to understand that you may lose money by investing in any of our strategies.

Some funds used may have a portion of their assets invested in overseas markets. Investments in overseas markets pose special risks, including currency fluctuation and political risks. The portfolio is expected to be more volatile than that of a US-only portfolio. These risks are generally intensified for investments in emerging markets.

Your account is subject to the following risks:

- **Stock Market Risk** – The value of securities in the portfolio will fluctuate and, as a result, the value may decline suddenly or over a sustained period of time.
- **Managed Portfolio Risk** – The manager's investment strategies or choice of specific securities may be unsuccessful and may cause the portfolio to incur losses.
- **Industry Risk** – The portfolio's investments could be concentrated within one industry or group of industries. Any factors detrimental to the performance of such industries may have a disproportionate impact on your portfolio. Investments focused in a particular industry are subject to greater risk and are more greatly impacted by market volatility than less concentrated investments.
- **Non-U.S. Securities Risk** – Non-U.S. securities are subject to the risks of foreign currency fluctuations, generally higher volatility and lower liquidity than U.S. securities, less developed securities markets and economic systems and political and economic instability.
- **Emerging Markets Risk** – To the extent that your portfolio invests in issuers located in emerging markets, the risk may be heightened by political changes and changes in taxation or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.
- **Currency Risk** – The value of your portfolio's investments may fall as a result of changes in exchange rates.

## **Item 9. Disciplinary Information**

CIMCO does not have any legal or other “disciplinary” events to report to you. Any disciplinary history can be obtained from the Massachusetts Securities Division, under 950 CMR 12.205(8)(d). To the best of our knowledge, CIMCO does not have any disciplinary history.

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

The advisers at Capital Investment Management, Inc. are registered representatives of First Allied Securities, Inc (FAS), a FINRA licensed broker-dealer. Our broker-dealer relationship may limit the types of financial products we can offer clients, but does not result in any conflict of interest of which we are aware. The company is not engaged in any business that is not related to its mission as an advisory firm.

Capital Investment Management, Inc. receives market-timing indicators from Hagerty Market Logic. This entity formulates recommendations for asset allocation, portfolio construction, timing and other recommendations based upon technical, fundamental, charting and other quantitative analytical techniques and methodologies. We may or may not act upon these recommendations, based upon our own research and analysis.

CIMCO has entered into an arrangement with ElderCare USA to provide advisory services in Colorado to persons, mainly elderly military veterans, which they identify and refer to us. We will act in conjunction with an accredited elder care attorney and may earn commissions on insurance products purchased by these clients or a trust.

CIMCO has numerous relationships with related professionals in the financial services arena, such as CPAs, attorneys, insurance professionals, banks and so forth, and can refer clients or prospective clients to these professionals. However, CIMCO does not have any negotiated financial arrangements with these professional and no material conflicts of interest exist. From time to time, insurance commissions may be shared by CIMCO advisors, but only where appropriate and within industry standards.

We do not select or recommend outside investment advisors for clients.

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

Capital Investment Management has developed and implemented a Code of Ethics that sets forth standards of conduct expected of the firm's advisory personnel. The Code of Ethics addresses, among other things:

- personal trading
- gifts
- prohibition against the use of inside information and other situations where there is a possibility for conflicts of interest.

The Code of Ethics is designed to protect our clients by:

- deterring misconduct
- educate personnel regarding the firm's expectations and laws governing their conduct
- remind personnel that they are in a position of trust and must act with complete propriety at all times
- protect the reputation of the firm
- guard against violation of the securities laws
- establish procedures for personnel to follow so that Capital Investment Management may determine whether our personnel are complying with the firm's ethical principles.

CIMCO will provide a copy of the Code to any client or prospective client upon request.

We take the issue of regulatory compliance seriously and are committed to maintain compliance with federal and applicable state securities laws. Additionally, CIMCO has a position of public trust and it is our goal to maintain that trust; provide excellent service, good investment performance; and advice that is suitable.

As a Registered Investment Adviser, Capital Investment Management is a fiduciary to each and every client. As fiduciaries, Investment Advisers owe their clients several specific duties. An Investment Adviser's fiduciary duties include:

- Providing advice that is suitable;
- Providing full disclosure of material facts and potential conflicts of interest (such that the client has complete and honest disclosure in order to make an informed decision about services of the Adviser and about investment recommendations);
- The utmost and exclusive loyalty and good faith;
- Best execution of transactions under the available circumstances;
- The Adviser's reasonable care to avoid ever misleading clients;
- Only acting in the best interests of clients.

It is CIMCO's policy to protect the interests of each of our clients and to place the clients' interests first and foremost in each and every situation. We will abide by honest and ethical business practices including, but is not limited to:

- We will not induce trading in a client's account that is excessive in size or frequency in view of the financial resources and character of the account.
- We will make investment decisions with reasonable grounds to believe that the decisions are suitable for the client on the basis of information furnished by the customer and we will document suitability.
- CIMCO and Advisory Representatives will not borrow money from clients.
- We will not recommend the purchase of a security without the reasonable belief that the security is registered, or the security or transaction is exempt from registration in states where we provide investment advice and based upon information the Adviser receives.
- We will not recommend that the client place an order to purchase or sell a security through a broker/dealer or agent, or engage the services of a broker/dealer that is not licensed, based upon information available to us.
- The staff of CIMCO will report all required personal securities transactions as set forth in our policies and procedures manual (non-reportable securities holdings include mutual funds and government securities, for example).

All applicable securities rules and regulations will be strictly enforced. We will not permit, and have instituted controls against insider trading. Similarly, we treat the accounts of related persons the same as any client account and personnel refrain from buying or selling securities recommended by related persons or trading in the same securities as related persons. Our Representatives and administrative personnel who do not follow CIMCO's Code of Ethics or who in any way violate securities rules and regulations, or who fail to report known or suspected violations will be disciplined or terminated, depending upon severity. Such persons could also face action by the SEC and/or a state securities regulator. Clients are welcome to request a copy of Capital Investment Management's Code of Ethics by contacting our office.

## **Item 12. Brokerage Practices**

Capital Investment Management, Inc. has a direct relationship with only one broker-dealer, First Allied Securities, Inc. (FAS). All securities are offered through FAS. As part of our relationship with FAS, CIMCO receives benefits such as proprietary research and marketing support.

As a rule, CIMCO does not aggregate the purchase or sale of securities, but this does not have a cost impact one way or another for clients because the firm does not pay for transaction fees with our custodians.

Client accounts at CIMCO may have one of the following custodians: TDAmeritrade, Pershing or Schwab. They are assigned as follows:

- Schwab: existing PCRA (self-directed retirement/401(k) accounts) or separately managed accounts through Manning & Napier.
- Pershing: First Allied Asset Management accounts
- TDAmeritrade: all other accounts.
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As a matter of policy and practice, we do not utilize research, research-related products and other services obtained from broker-dealers, or third parties, on a soft dollar commission basis.

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

Client accounts at Capital Investment Management, Inc. are regularly reviewed on a quarterly basis, both in terms of accuracy and adherence to financial planning goals. This work is performed by the firm's Investment Analyst as well as its Client Service Representatives. Financial plans are generally reviewed annually and in-person as appropriate. Financial plans are also reviewed at any time at the request of a client as their circumstances may dictate.

CIMCO currently offers to each client an in-person annual meeting to review macro economic trends and investment performance. Quarterly written reports for all of a client's accounts are provided.

Client's receiving only financial planning services will not receive regular reports.

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

Capital Investment Management, Inc. may from time to time refer a client to a financial or legal professional outside of the firm that can provide specific expertise that may be beneficial to the client. CIMCO has no fixed, negotiated fee arrangements with any of these professionals. However, it is not uncommon for an insurance professional to offer CIMCO a percentage of an earned commission from a referral. These commission 'splits' are negotiable, but are standard within the industry. CIMCO strives to refer clients only to the most qualified outside professional, and does so without regard to the potential for a commission split.

We may receive fees from some investment companies, but these fees shall be disclosed to clients.

Capital Investment Management has a relationship with TD Ameritrade Institutional, a division of TD Ameritrade, Inc. Member FINRA/SIPC ("TD Ameritrade"), to act as custodian for client accounts. Some of the products, services and other benefits provided by TD Ameritrade benefit the firm and may not directly benefit a specific client. Our recommendation/requirement that a client place assets in TD Ameritrade's custody may be based in part on benefits TD Ameritrade provides to us and not solely on the nature, cost or quality of custody and execution services provided by TD Ameritrade. The benefits received by us do not depend on the amount of brokerage trades directed to TD Ameritrade.

Capital Investment Management places trades for its clients' accounts subject to its duty to seek best execution and its other fiduciary duties. The firm may use broker-dealers other than TD Ameritrade to execute trades for client accounts maintained at TD Ameritrade, but this practice may result in additional costs to clients so that Capital Investment Management is more likely to place trades through TD Ameritrade rather than other broker-dealers. TD Ameritrade's execution quality may be different than other broker-dealers.

CIMCO has a formal 'solicitors' program whereby it will pay someone not directly supervised by the firm for client referrals to CIMCO. This program has been vetted by our broker-dealer, First Allied Securities, Inc and is in compliance with state securities laws. CIMCO will pay to a solicitor a certain percentage of fees earned from the referred client for a fixed number of years. All fees paid are negotiable, but generally consist of 25% of earned fees for four years.

## **Item 15. Custody**

Capital Investment Management, Inc. as the adviser, its associated persons and First Allied Securities, Inc. will not act as custodians for any account.

Custodians chosen by us and/or our broker-dealer, First Allied Securities, Inc. such as Schwab, TD Ameritrade, Pershing, Exeter Trust and Community National Bank, and/or the variable annuity companies will maintain the custody of all client funds and securities. This includes the Schwab Institutional Personal Choice Retirement Account (PCRA), available with 401(k) savings plans.

These Custodians will provide Quarterly Reports, aggregated into one quarterly statement as appropriate, indicating the following information:

- all asset class positions
- the specific investments in each asset class
- the dollar amount invested in each investment

Clients should carefully review these quarterly statements.

## Item 16. Investment Discretion

The principals of Capital Investment Management, Inc. are registered with First Allied Securities, Inc., a FINRA licensed broker-dealer, as registered representatives. As such they may act as the investment advisory client's representative in the execution of securities transactions on a normal and customary basis. The applicable provisions of Section 206 of the Investment Advisers Act of 1940 are strictly complied with in the execution of each transaction.

Such possible transactions are at the client's complete discretion (unless the client provides discretionary authority to the Advisor) with the receipt of commissions and the possibility of any conflict of interest fully disclosed. Capital Investment Management, Inc. and its principals, and not First Allied Securities, Inc., are solely responsible for the quality of Investment advice provided to clients of the Advisor.

The **ICMP** program offered by Capital Investment Management, Inc. and discussed in Section 1 (Advisory Services) may be provided on a discretionary or non-discretionary basis at your option. If who choose to provide the Advisor with discretion, you have agreed to allow the Advisor to buy and sell securities without your prior knowledge.

Capital Investment Management, Inc. also offers a service to clients called the **Market Timing Service** pursuant to an agreement between Capital Investment Management, Inc. and the client (discussed in Section 1 – Advisory Services). This is a service designed to reposition or reallocate the client's assets based on a market timing model. Based upon market timing signals obtained from any other sub-advisor deemed suitable, Capital Investment Management, Inc. trades client portfolio's on either a discretionary or non-discretionary basis at the client's option. These portfolios generally consist of a portfolio of suitable equity and fixed income investment vehicles. The service focuses on the construction of client portfolios composed primarily of various mutual funds purchased with no-load or at Net Asset Value (NAV) and variable annuity sub-account allocations.

The election by a client to give CIMCO investment discretion is covered in the Fee Agreement that is signed by the client and the owner of Capital Investment Management, Inc. Clients may place limitations on the investment discretion given to CIMCO; for example, a 'not to exceed' dollar amount for particular types of trades.

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

Capital Investment Management, Inc. will not have, nor accept, authority to exercise voting power with respect to client securities. The firm will not vote proxies on behalf of clients.

Clients should receive their proxies and other solicitations directly from their custodian or a transfer agent. Clients should not contact CIMCO about such matters and if they do, our policy is to remain neutral.

## **Item 18. Financial Information**

There are no adverse financial circumstances known by Capital Investment Management, Inc. either now existing or in the past that should be of concern to a client or potential client, and specifically, there are no financial conditions existing that are reasonably likely to impair the firm's ability to meet any contractual commitments to clients.

We do not require or solicit prepayment of fees that are both (1) in excess of \$500 per client and (2) for six months or more in advance.

**Item 19. Requirements for State-Registered Advisers**

**CAPITAL INVESTMENT MANAGEMENT**

*Registered Investment Advisor*

**FORM ADV PART 2B  
BROCHURE SUPPLEMENT**

**Christopher B. Pelley  
Chad A. Williams  
Haavard Selseng  
Matthew Workman  
Susan Geraghty**

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303-221-1000 Main Phone  
303-221-2478 Fax Number

*This brochure supplement provides information about Christopher Pelley, Chad Williams, Haavard Selseng, Matthew Workman, and Susan Geraghty that supplements the Capital Investment Management Inc. brochure. You should have received a copy of that brochure. Please contact our office if you did not receive Capital Investment Management's brochure or if you have any questions about the content of this supplement. Additional information about these individuals is available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).*

## **Christopher B. Pelley**

### **Educational Background and Business Experience**

#### *Educational Background*

Christopher Pelley was born in 1952. Mr. Pelley attended the University of Missouri-Columbia and graduated with Bachelor of Science degrees in Business Administration and Psychology in 1975.

#### *Professional Designations*

Mr. Pelley currently holds the Chartered Financial Consultant® (ChFC®) designation. The ChFC® program is administered by the American College, Bryn Mawr, Pennsylvania. This designation has the same core curriculum as the CFP® designation, plus two or three additional elective courses that focus on various areas of personal financial planning. In addition to successful completion of an examination on areas of financial planning, including income tax, insurance, investment and estate planning, candidates are required to have a minimum of three (3) years experience in a financial industry position.

Mr. Pelley also hold the Chartered Life Underwriter® (CLU®) designation. The CLU® designation is a professional credential for persons involved in providing life insurance products to the public. To obtain the CLU® designation, applicants must pass 8 examinations and meet experience requirements and ethical standards.

Christopher Pelley holds the following Securities Licenses: Series 7, Series 22, Series 24, Series 63, Series 65.

#### *Business Experience*

Mr. Pelley's business experience for the past five years includes:

- 2010 - present First Allied Securities, Wealth Advisor
- 1996 – present Capital Investment Management, Owner/Managing Partner
- 1992 – 2010 Securities Service Network, OSJ
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### **Disciplinary Information**

Following routine audit in July 2002 with the Colorado State Securities Division, Colorado staff alleged Christopher B. Pelley employed an unlicensed IA Rep and failed to supervise him. In stipulation for consent order, Christopher B. Pelley neither admitted nor denied Colorado staff allegations of wrongdoing but agreed to entry of consent order. Based on stipulation, Colorado Securities Commissioner entered consent order on 7/22/2002 without findings of fact or legal conclusions, censuring Christopher B. Pelley.

### **Other Business Activities**

Mr. Pelley is a registered representative and an investment adviser representative of First Allied Securities (FASI), a full-service broker/dealer, member FINRA/SIPC and an SEC registered investment adviser. When placing securities transactions through FASI in his capacity as a registered representative, he may earn sales commissions. This could present a potential conflict of interest since Mr. Pelley could receive fees and commissions should you choose to implement recommendations of Mr. Pelley in his capacity as a registered representative. Because Mr.

Pelley is a dually registered agent of FAS and Capital Investment Management, FASI has certain supervisory and administrative duties pursuant to the requirements of FINRA Conduct Rule 3040.

Additionally, as a registered representative, he could also receive compensation from mutual fund sales loads, 12(b)-1 distribution fees, variable annuity sales commissions or trail commissions. The 12(b) - 1 distribution fees, sales charges and other fee arrangements will be disclosed upon your request and are typically described in the applicable fund and/or annuity prospectus. Any fees or other compensation received by Mr. Pelley in his separate capacity as a registered representative will be received to the extent permitted by applicable law.

**This activity represents more than 10% of Mr. Pelley's time and income.**

Mr. Pelley also has a relationship with FASI, an SEC registered investment advisor, to provide back office and administrative support services to Capital Investment Management. When doing so, FASI will receive a portion of the management fee or an administrative fee for the services provided.

**Mr. Pelley holds an insurance license to sell limited insurance products. It is anticipated that a small portion, less than 10% of his time will be spent providing these insurance products. Mr. Pelley may receive compensation from selling insurance products and therefore receive economic benefit for this activity. This activity may create a conflict of interest with clients. However, since this activity represents less than 10% of his time and income, it is presumed not to be substantial.**

Mr. Pelley may also occasionally implement programs under which he is eligible to win nominal awards for certain sales efforts including, but not limited to, establishing new accounts or placing additional assets under management. These programs will not change the fees clients pay for advisory services or the amounts that will be invested in any product purchased.

From time to time, Mr. Pelley may receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing such as advertising, publishing and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for whom sales have been made or it is anticipated sales will be made.

### **Supervision**

Mr. Pelley is supervised through a compliance program designed to prevent and detect the advice Mr. Pelley provides to clients. Supervision is conducted by the Chief Compliance Officer, Chad Williams, 303-221-1000.

## **Chad A. Williams**

### **Educational Background and Business Experience**

#### *Educational Background*

Chad Williams was born in 1976. Mr. Williams attended University of Colorado and graduated with a Bachelor of Arts degree in Economics in 1998.

#### *Professional Designations*

Mr. Williams currently holds the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation. The CFP® program is administered by the Certified Financial Planner Board of Standards Inc. Those with the CFP® designation have demonstrated competency in all areas of finance related to financial planning.

Candidates complete studies on over 100 topics, including stocks, bonds, taxes, insurance, retirement planning and estate planning. In addition to passing the CFP® certification examination, candidates must also complete qualifying work experience and agree to adhere to the CFP® Board's code of ethics and professional responsibility and financial planning standards.

Mr. Williams also holds the Certified Financial Educator® designation. The CFEd® designation is issued by the Heartland Institute of Financial Education. Individuals who hold this designation have successfully completed the Heartland Institute's required training and passed a qualifying examination which covers areas in financial planning and adult learning. CFEd® designees must also complete 12 hours of continuing education each year.

Mr. Williams holds the following Securities Licenses: Series 7, Series 63, Series 65

#### *Business Experience*

Mr. Williams' business experience for the past five years includes:

- 2010 – present First Allied Securities, Wealth Advisor
- 1999 – present Capital Investment Management, Managing Partner
- 2002 – 2010 Securities Service Network, Registered Representative

### **Disciplinary Information**

N/A

### **Other Business Activities**

Mr. Williams is a registered representative and investment adviser representative of First Allied Securities (FASI), a full-service broker/dealer, member FINRA/SIPC and an SEC registered investment adviser. When placing securities transactions through FASI in his capacity as a registered representative, he may earn sales commissions. This could present a potential conflict of interest since Mr. Williams could receive fees and commissions should you choose to implement recommendations of Mr. Williams in his capacity as a registered representative. Because Mr. Williams is a dually registered agent of FASI and Capital Investment Management, FASI has certain supervisory and administrative duties pursuant to the requirements of FINRA Conduct Rule 3040.

Additionally, as a registered representative, he could also receive compensation from mutual fund sales loads, 12(b)-1 distribution fees, variable annuity sales commissions or trail commissions. The 12(b) - 1 distribution fees, sales charges and other fee arrangements will be disclosed upon your request and are typically described in the applicable fund and/or annuity prospectus. Any

fees or other compensation received by Mr. Williams in his separate capacity as a registered representative will be received to the extent permitted by applicable law.

**This activity represents more than 10% of Mr. Williams time and income.**

Mr. Williams also has a relationship with FASI, an SEC registered investment advisor, to provide back office and administrative support services to Capital Investment Management. When doing so, FASI will receive a portion of the management fee or an administrative fee for the services provided.

**Mr. Williams holds an insurance license to sell limited insurance products. It is anticipated that a small portion, less than 10% of his time will be spent providing these insurance products. Mr. Williams may receive compensation from selling insurance products and therefore receive economic benefit for this activity. This activity may create a conflict of interest with clients. However, since this activity represents less than 10% of his time and income, it is presumed not to be substantial.**

### **Additional Compensation**

Mr. Williams may also occasionally implement programs under which he is eligible to win nominal awards for certain sales efforts including, but not limited to, establishing new accounts or placing additional assets under management. These programs will not change the fees clients pay for advisory services or the amounts that will be invested in any product purchased.

From time to time, Mr. Williams may receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing such as advertising, publishing and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for whom sales have been made or it is anticipated sales will be made.

### **Supervision**

Mr. Williams is supervised through a compliance program designed to prevent and detect the advice Mr. Williams provides to clients. Supervision is conducted by the President, Christopher Pelley, 303-221-1000.

## **Matthew Workman**

### **Educational Background and Business Experience**

#### *Educational Background*

Mr. Workman was born in 1981. Mr. Workman attended the University of Colorado where he earned his Bachelor of Arts in Biology.

#### *Professional Designations*

Mr. Workman holds the following Securities Licenses: Series 7, Series 66

#### *Business Experience*

Mr. Workman's business experience for the past five years includes:

- 2010 – present First Allied Securities, Investment Advisor Representative.
- 2011 – present Capital Investment Management, Investment Adviser Representative
- 2009 – 2011 Capital Investment Management, Relationship Manager
- 2007 – 2009 Retirement Group, Registered Representative

### **Disciplinary Information**

N/A

### **Other Business Activities**

Mr. Workman is a registered representative and investment adviser representative of First Allied Securities (FASI), a full-service broker/dealer, member FINRA/SIPC and an SEC registered investment adviser. When placing securities transactions through FASI in his capacity as a registered representative, he may earn sales commissions. This could present a potential conflict of interest since Mr. Workman could receive fees and commissions should you choose to implement recommendations of Mr. Workman in his capacity as a registered representative. Because Mr. Workman is a dually registered agent of FASI and Capital Investment Management, FASI has certain supervisory and administrative duties pursuant to the requirements of FINRA Conduct Rule 3040.

Additionally, as a registered representative, he could also receive compensation from mutual fund sales loads, 12(b)-1 distribution fees, variable annuity sales commissions or trail commissions. The 12(b) - 1 distribution fees, sales charges and other fee arrangements will be disclosed upon your request and are typically described in the applicable fund and/or annuity prospectus. Any fees or other compensation received by Mr. Workman in his separate capacity as a registered representative will be received to the extent permitted by applicable law.

**This activity represents more than 10% of Mr. Workman's time and income.**

Mr. Workman also has a relationship with FASI, an SEC registered investment advisor, who will provide back office and administrative support services to Capital Investment Management. When doing so, FASI will receive a portion of the management fee or an administrative fee for the services provided.

**Mr. Workman holds an insurance license to sell limited insurance products. It is anticipated that a small portion, less than 10% of his time will be spent providing these insurance products. Mr. Workman may receive compensation from selling insurance products and**

**therefore receive economic benefit for this activity. This activity may create a conflict of interest with clients. However, since this activity represents less than 10% of his time and income, it is presumed not to be substantial.**

### **Additional Compensation**

Mr. Workman may also occasionally implement programs under which he is eligible to win nominal awards for certain sales efforts including, but not limited to, establishing new accounts or placing additional assets under management. These programs will not change the fees clients pay for advisory services or the amounts that will be invested in any product purchased.

From time to time, Mr. Workman may receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing such as advertising, publishing and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for whom sales have been made or it is anticipated sales will be made.

### **Supervision**

Mr. Workman is supervised through a compliance program designed to prevent and detect the advice Mr. Workman provides to clients. Supervision is conducted by the Chief Compliance Officer, Chad Williams, 303-221-1000.

## **Susan Geraghty**

### **Educational Background and Business Experience**

#### *Educational Background*

Susan was born in 1958. Ms. Geraghty received her Bachelor of Arts in Business from the University of Denver.

#### *Professional Designations*

Ms. Geraghty currently holds the Registered Paraplanner™ (RP®) designation. The RP® program is administered by the College for Financial Planning. Those with the RP® designation have completed an intense curriculum covering the financial planning process, the time value of money, insurance, investments, income tax planning, retirement planning, estate planning, and communication skills.

Ms. Geraghty holds the following Securities Licenses: Series 7, Series 66

#### *Business Experience*

Ms. Geraghty's business experience for the past five years includes:

- 2010 – present First Allied Securities, Registered Representative, Investment Advisor Representative
- 2008 – present Capital Investment Management, Investment Advisor Representative
- 2008 – present Securities Service Network, Registered Sales Assistant
- 2005 – 2008 MCL Financial Group Registered Sales Assistant

### **Disciplinary Information**

N/A

### **Other Business Activities**

Ms. Geraghty is a registered representative and investment adviser representative of First Allied Securities (FASI), a full-service broker/dealer, member FINRA/SIPC and an SEC registered investment adviser. When placing securities transactions through FASI in her capacity as a registered representative, he may earn sales commissions. This could present a potential conflict of interest since Ms. Geraghty could receive fees and commissions should you choose to implement recommendations of Ms. Geraghty in his capacity as a registered representative. Because Ms. Geraghty is a dually registered agent of FASI and Capital Investment Management, FASI has certain supervisory and administrative duties pursuant to the requirements of FINRA Conduct Rule 3040.

Additionally, as a registered representative, he could also receive compensation from mutual fund sales loads, 12(b)-1 distribution fees, variable annuity sales commissions or trail commissions. The 12(b) - 1 distribution fees, sales charges and other fee arrangements will be disclosed upon your request and are typically described in the applicable fund and/or annuity prospectus. Any fees or other compensation received by Ms. Geraghty in her separate capacity as a registered representative will be received to the extent permitted by applicable law.

**This activity represents more than 10% of Ms. Geraghty's time and income.**

Ms. Geraghty also has a relationship with FASI, an SEC registered investment adviser, who will provide back office and administrative support services to Capital Investment Management.

When doing so, FASI will receive a portion of the management fee or an administrative fee for the services provided.

Ms. Geraghty holds an insurance license to sell limited insurance products. It is anticipated that a small portion, less than 10% of her time will be spent providing these insurance products. Ms. Geraghty may receive compensation from selling insurance products and therefore receive economic benefit for this activity. This activity may create a conflict of interest with clients. However, since this activity represents less than 10% of her time and income, it is presumed not to be substantial

### **Additional Compensation**

Ms. Geraghty may also occasionally implement programs under which she is eligible to win nominal awards for certain sales efforts including, but not limited to, establishing new accounts or placing additional assets under management. These programs will not change the fees clients pay for advisory services or the amounts that will be invested in any product purchased.

From time to time, Ms. Geraghty may receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing such as advertising, publishing and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for whom sales have been made or it is anticipated sales will be made

### **Supervision**

Ms. Geraghty is supervised through a compliance program designed to prevent and detect the advice Ms. Geraghty provides to clients. Supervision is conducted by the Chief Compliance Officer, Chad Williams, 303-221-1000.

### **Requirements for State-Registered Advisers**

Please be advised that no supervised person of CIMCO has been involved in an award or has otherwise been found liable in an arbitration claim alleging damages in excess of \$2,500, involving any of the following:

- (a) an investment or an *investment-related* business or activity;
- (b) fraud, false statement(s), or omissions;
- (c) theft, embezzlement, or other wrongful taking of property;
- (d) bribery, forgery, counterfeiting, or extortion; or
- (e) dishonest, unfair, or unethical practices.

Additionally, no supervised person of CIMCO has been involved in an award or otherwise been found liable in a civil, self-regulatory organization, or administrative proceeding involving any of the following:

- (a) an investment or an *investment-related* business or activity;
- (b) fraud, false statement(s), or omissions;
- (c) theft, embezzlement, or other wrongful taking of property;
- (d) bribery, forgery, counterfeiting, or extortion; or
- (e) dishonest, unfair, or unethical practices

Neither CIMCO or any person associated with the adviser has a relationship or arrangement with any issuer of securities.