

**Firm Brochure**  
(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Taylor Stephens, Inc. If you have any questions about the contents of this brochure, please contact us at: 972-991-1181, or by email at: [mhaynes@taylorstephens.com](mailto:mhaynes@taylorstephens.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

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

May 7, 2012

## Material Changes

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### Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### Material Changes since the Last Update

**The Firm has had the following material changes to its business since the filing of its most recent narrative brochure (dtd 3/11).**

The Firm now serves as the sole investment manager of the PearlFinder Global Offshore Fund, LP (“the Fund”) as well as the Master Fund of such Fund (in which the Fund invests substantially all of its assets and in which the Fund conducts substantially all of its trading activity), The PearlFinder Global Master Fund, L.P. In its capacity, TSI is entitled to receive a management fee at an annual rate of 1.8% of the Fund’s net asset value, calculated and payable in advance. The general partner of the Fund and the Master Fund is PearlFinder Partners, LLC, a Texas limited liability company controlled by Vince Rowe and Oliver Juergens, both also advisory representatives of TSI. PearlFinder Partners, GP, L.P., an entity controlled by Rowe and Juergens and also a general partner of the Master Fund is entitled to an annual performance-based profit allocation at the end of each calendar year, taken at the Master Fund level, equal to 25% of the Master Fund’s net profits, but only to the extent such profits exceed a “hurdle rate” of 4% for the year. These compensation arrangements are described in detail in the Confidential Private Placement Memorandum pursuant to which interests in the fund are offered. It is noted that the Fund is an offshore fund open only to non-U.S. investors and accordingly TSI clients would not be qualified to purchase the Fund.

See updates regarding the firm’s assets under management and client base under *Types of Advisory Services – p3* as well.

PearlFinder GP, LP, an entity controlled by Vince Rowe (also an advisory rep of TSI) has entered into an soft dollar agreement with Interactive Brokers, LLC, (“IB”), also one of the executing brokers for TSI, pursuant to which certain research services and products as defined under Section 28(e) of the Securities Exchange Act are provided. These research services and products may include, without limitation, information on the economy, industries, groups of securities, individual companies, statistical information, technical market action, pricing and appraisal services, and trade execution services.

When client brokerage commissions are used to obtain research or brokerage services, TSI receives a benefit to the extent that it does not have to produce these products internally or compensate third parties with its own money for such services. Therefore, use of client brokerage commissions results in a conflict of interest because TSI has an incentive to direct client brokerage to those brokers who provide research and services TSI utilizes, even if those brokers do not necessarily offer the best price or commission rates for its clients

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**Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 972-991-1181 or by email at: [mhaynes@taylorstephensinc.com](mailto:mhaynes@taylorstephensinc.com)

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# Advisory Business

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## **Firm Description**

Taylor Stephens, Inc., ("TSI") was founded in 1990.

TSI primarily provides discretionary portfolio management services to individuals, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations as well as other business entities. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

TSI does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities; however representatives of TSI are also registered representatives of S&P Investors, Inc., one of the broker/dealers used to execute recommended transactions. Thus, commissions may be received by advisory representatives in their capacity as registered representatives of S&P. This represents a conflict of interest to the extent representatives recommend a transaction to a Client which results in a commission being paid to the representative in addition to the advisory fee which may in turn result in higher overall transaction costs paid by Clients. Representatives will be required to factor such conflict into the rate of advisory fee that is negotiated with the Client.

No finder's fees are accepted.

Investment advice is provided, with the client making the final decision on investment selection. TSI does not act as a custodian of client assets. The client always maintains asset control. TSI places trades for clients pursuant to a client executed limited power of attorney.

A written evaluation of each client's initial situation is provided to the client, often in the form of a net worth statement. Periodic reviews are also communicated to provide reminders of the specific courses of action that need to be taken. More frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

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## **Principal Owners**

John Taylor is a 50% stockholder. Brinson Partner Ltd is a 50% stockholder.

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**Types of Advisory Services**

TSI provides portfolio management services, also known as asset management services to individuals, small businesses, and institutional clients. During the course of such services, the firm may provide clients with special reports about securities, as well as charts, graphs, formulas or other documents that may assist clients in evaluating securities. The firm also issues periodicals about securities by subscription.; In the event clients seek advice on matters not involving securities, such as financial planning, taxation issues, and trust services, or estate planning, TSI refers clients to appropriate professionals. TSI does not receive referral fees for such referrals.

As of March 31, 2011, TSI manages approximately \$69, 069, 209 in assets for approximately 332 clients. Approximately \$69, 069, 209 is managed on a discretionary basis, and \$0 is managed on a non-discretionary basis.

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**Tailored Relationships**

The goals and objectives for each client are documented in a client relationship management system. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

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**Types of Agreements**

The following agreements define the typical client relationships.

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**Advisory Agreement**

Most clients choose to have TSI manage their assets in order to obtain ongoing in-depth advice and life planning. All aspects of the client's financial affairs are reviewed, including those of their children. Realistic and measurable goals are set and objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for an Advisory Agreement is provided to the client in writing prior to the start of the relationship and may be negotiated.

Clients are charged investment advisory fees which are scaled according to the value of assets under management per the following schedule:

*Clients Executing Through S&P Investors/Southwest Securities, Inc.*

Asset Management for Client Accounts with Aggregate Value Exceeding \$500,000

The fee is .25% of assets under management per calendar quarter (minimum of \$25/quarter)

The fee is NEGOTIABLE and current client relationships may exist where the fees are higher or lower than the fee schedule above.

Asset Management for Client Accounts with Aggregate Value Less than \$500,000

The .375% of the first \$50,000; .312% of the next \$50,000, and .25% thereafter of assets under management

The fee is NEGOTIABLE and current client relationships may exist where the fees are higher or lower than the fee schedule above.

*Clients Executing Through Interactive Brokers, Inc..*

Asset Management for Client Accounts with Aggregate Value Exceeding \$500,000

Annual Fee: 1 % of assets under management

Transaction Fee: \$5 per transaction

The fee is NEGOTIABLE and current client relationships may exist where the fees are higher or lower than the fee schedule above.

Asset Management for Client Accounts with Aggregate Value Less than \$500,000

Annual Fee: 1.25% of assets under management

Transaction Fee: \$5 per transaction

The fee is NEGOTIABLE and current client relationships may exist where the fees are higher or lower than the fee schedule above.

For purposes of calculating the average daily balance, values are accumulated on each day of the period where an asset is non-zero. The accumulation is then divided by either the total number of days the asset's units balances was non-zero in the period or by the total number of days in the report date range. If the asset is held less than a whole period, the accumulated value is then prorated by multiplying the number of days in the period the asset was held divided by the total number of days in the period. The average asset balances are then summed to obtain an average daily balance for the portfolio. Prices of securities are typically based upon the closing price of the exchange in which the security is traded. However, for thinly traded securities, TSI will use the most current bid price.

Although the Advisory Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

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### **Hourly Planning Engagements**

TSI may provide hourly planning services for clients who need advice on a limited scope of work if requested by the client. The hourly rate for limited scope engagements is \$250/hr.

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### **Asset Management**

For any portfolios which include assets invested in investment company funds or held in money market funds, the investment company or money market funds may charge management fees for all funds invested. Any fees charged by the investment company or money market funds are in addition to any advisory fees charged by TSI.

Assets may be invested in no-load or low-load mutual funds and exchange-traded funds. Stocks and bonds may be purchased or sold through a brokerage account when appropriate. Depending upon the Client needs, objectives and trading strategies, TSI will recommend to Clients that either S&P Investors, Inc. or Interactive Brokers, Inc. be used for execution of trades; however, Clients may request that trades be executed with any institution or broker/dealer. The brokerage firm(s) will charge a fee for stock and bond trades. TSI does not receive any compensation, in any form, from fund companies.

TSI will charge a \$20.00 fee per trade to cover its administrative costs in the event trades are executed away from S&P Investors, Inc. or Interactive



Brokers, Inc. Clients may request trade executions through other institutions in order to obtain lower transaction costs and in such instances, it is intended that TSI's administrative costs will not create a higher margin of overall costs to the Client.

Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (etf's and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not available through TSI.

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### **Termination of Agreement**

A Client may terminate the Advisory Agreement within five (5) days from the date that the Advisory Agreement is entered into by notifying TSI in writing and all fees, if any, paid by the client will be refunded. Thereafter, a Client may terminate the Advisory Agreement at any time upon five (5) days written notice to TSI, and paying the rate for the time spent on the investment advisory engagement prior to notification of termination. If the client made an advance payment, TSI will refund any unearned portion of the advance payment.

TSI may terminate the Advisory Agreement at any time upon five (5) days written notice to the client in writing. If the client made an advance payment, TSI will refund any unearned portion of the advance payment.

## **Fees and Compensation**

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### **Description**

TSI bases its fees on a percentage of assets under management, hourly charges, fixed fees (not including subscription fees), and commissions.

Fees are *NEGOTIABLE*.

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### **Fee Billing**

Investment advisory fees are generally billed monthly, in *ARREARS*, meaning that clients are invoiced *AFTER* the one-month billing period has *ENDED*. In certain circumstances, clients may be billed quarterly (vs. monthly) as negotiated with TSI. Payment in full is expected upon invoice presentation but no later than thirty (30) days of the date of the invoice. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account. Clients may alternatively elect to be invoiced directly for advisory fees due to TSI.

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## Other Fees

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

TSI and some of its supervised persons accept compensation from the sale of securities or other investment products including asset-based sales charges or service fees from the sale of mutual funds and insurance products. This practice presents a conflict of interest and gives TSI and its registered representatives an incentive to recommend investment products based on the compensation received, rather than on a *client's* needs.

**Mutual Funds – Fees and expenses are described in each fund's prospectus.** These fees will generally include a management fee, other fund expenses and a possible fund distribution fee. If the fund imposes sales charges, a client may pay an initial or deferred sales charge. If the advisor representative recommends mutual funds that carry a sales load or pay 12(b)-1 fees, and receives this compensation in addition to a separate advisory fee, a conflict of interest exists.

**Insurance Contracts – TSI and investment advisor representatives may recommend that clients purchased fixed or variable insurance contracts when the client's tax or legal situation make such purchases suitable, or if the client determines certain living or death benefit guarantees available through insurance contracts are desirable in helping the client meet his/her investment, tax or income objectives.** Clients are advised that variable insurance contracts carry fees and expenses relating to providing insurance guarantees that are in addition to the expenses associated with the investment features. These insurance related expenses usually include mortality and expense risk fees, premium taxes (in certain states), an annual contract administration fee and, in the case of life insurance, the cost of the life insurance risk to the insurance company. Clients are advised that the additional fees charged by insurance companies within variable contracts are separate and distinct from advisory fees charged by TSI. In addition, these contracts may have significant withdrawal or surrender penalties if a minimum contract holding period is not met. All fees and expenses associated with the variable contract features and benefits are explained in detail in the prospectus for the product being recommended and disclosure is documented on the firm's compliance documentation that is signed by the client.

At no time shall TSI or an advisor representative of TSI charge an advisory fee on any insurance contract or on any mutual fund that pays TSI and the advisor representative a front-end or back-end sales charge. This prohibition against charging both an advisory fee and earning commissions (other than 12(b)-1 fees) mitigates the conflict of interest noted above. Additionally, TSI and TSI's investment advisor representatives are not permitted to markup or charge commissions on trades of stocks, bonds, options or ETF's that exceed the clearing firm's ticket charge.

TSI will charge a \$20.00 fee per trade to cover its administrative costs in the event trades are executed away from S&P Investors, Inc. or Interactive Brokers, Inc. Clients may request trade executions through other institutions in order to obtain lower transaction costs and in such instances, it is intended that TSI's administrative costs will not create a higher margin of overall costs to the Client.

TSI, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

New Advisory Service Agreement fees are calculated on a formula basis and adjusted for complexity of individual situations. *The formula is based on gross income, gross assets and other financial considerations.*

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### **Expense Ratios**

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to TSI.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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### **Past Due Accounts and Termination of Agreement**

TSI reserves the right to stop work on any account that is more than 30 days overdue. In addition, TSI reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in TSI's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 30 days.

## Performance-Based Fees

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### Sharing of Capital Gains

General client advisory fees are not based on a share of the capital gains or capital appreciation of managed securities for advisory clients.

The Firm now serves as the sole investment manager of the PearlFinder Global Offshore Fund, LP (“the Fund”) as well as the Master Fund of such Fund (in which the Fund invests substantially all of its assets and in which the Fund conducts substantially all of its trading activity), The PearlFinder Global Master Fund, L.P. It is noted that the Fund is an offshore fund open only to non-U.S. investors and accordingly TSI clients would not be qualified to purchase the Fund. In its capacity, TSI is entitled to receive a management fee at an annual rate of 1.8% of the Fund’s net asset value, calculated and payable in advance. The general partner of the Fund and the Master Fund is PearlFinder Partners, LLC, a Texas limited liability company controlled by Vince Rowe and Oliver Juergens, both also advisory representatives of TSI. PearlFinder Partners, GP, L.P., an entity controlled by Rowe and Juergens and also a general partner of the Master Fund is entitled to an annual performance-based profit allocation at the end of each calendar year, taken at the Master Fund level, equal to 25% of the Master Fund’s net profits, but only to the extent such profits exceed a “hurdle rate” of 4% for the year. These compensation arrangements are described in detail in the Confidential Private Placement Memorandum pursuant to which interests in the fund are offered.

## Types of Clients

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### Description

TSI generally provides investment advice to high net worth individuals, banks or thrift institutions, pension and profit sharing plans, trusts, estates, or charitable organizations, state and municipal entities, and corporations or other business entities.

Client relationships vary in scope and length of service.

### Account Minimums

The minimum account size is typically \$250,000 of assets under management, which equates to an annual fee of \$3,125.00. However, this minimum may be waived at discretion of TSI.

If a minimum is imposed, when an account falls below the \$250,000 threshold in value, the minimum annual fee would be charged.

TSI has the discretion to waive the account minimum. Accounts of less than \$250,000 may be set up when the client and the advisor anticipate the client will add additional funds to the account(s) or for other business relationship

purposes. Other exceptions may also apply to employees of TSI and their relatives, or relatives of existing clients.

Clients receiving ongoing asset management services will be assessed a \$25 per quarter minimum annual fee. Clients with assets below the minimum account size may pay a higher percentage rate, up to 1.25% on their annual fees than the fees paid by clients with greater assets under management, but at no time will management fees be in excess of 3%.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

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### **Methods of Analysis**

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, , annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

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### **Investment Strategies**

The primary investment strategy used on client accounts is strategic asset allocation. Portfolios are globally diversified to control the risk associated with traditional markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time.

Other strategies may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

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### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. TSI's investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm itself has not been involved in legal or disciplinary events related to past or present investment clients. However, one of the principal officers of the firm, William K. Brinson had a default judgment entered against him in the amount of \$2,337, 611.07 in Dallas County District Court. The plaintiffs (David Michael Jenkins and John Valvoord) sued William K Brinson in his individual capacity as trustee and alleged various causes of action.

## Other Financial Industry Activities and Affiliations

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### Financial Industry Activities

TSI itself is not registered as a securities broker-dealer, or a futures commission merchant, commodity pool operator or commodity trading advisor.

As discussed previously, TSI serves as the Advisor for the PearlFinder Global Offshore Fund, L.P., a long/short investment hedge fund.

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### Affiliations

TSI has arrangements that are material to its advisory or its clients with a related person who is an insurance agency. More specifically, one of the principal officers, William K. Brinson, is engaged in other activities involving insurance as a field underwriter and is also a registered representative of S&P Investors, Inc., a FINRA registered broker dealer. Accordingly, if a client chooses to implement the advisory recommendations of their advisory representative and then elects to execute such transactions through S&P Investors as a broker-dealer, such representative may receive commissions as a result of such transactions exclusive of and in addition to the advisory fee. This presents a conflict of interest to the extent the representative recommends a client invest in a security which results in a commission being paid to the representative in addition to the advisory fee which may result in higher overall transactions costs paid by a client may be higher through S&P than those charged by other broker-dealers.

## Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

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### Code of Ethics

The employees of TSI have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

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### Participation or Interest in Client Transactions

TSI anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which TSI has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which TSI, its affiliates and/or clients, directly or indirectly, have a position of interest. TSI's employees and persons associated with TSI are required to follow TSI's Code

of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of TSI and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for TSI's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of TSI will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of TSI's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between TSI and its clients.

As discussed previously, TSI serves as the Advisor for the PearlFinder Global Offshore Fund, L.P., a long/short investment hedge fund.

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### **Personal Trading**

The Chief Compliance Officer of TSI is William K Brinson. He reviews all employee trades each day via review of daily trade blotters.. His trades are reviewed by John Taylor, Chairman Emeritus. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

## **Brokerage Practices**

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### **Selecting Brokerage Firms**

TSI does not have any affiliation with product sales firms.

In most cases, TSI will recommend that either S&P Investors, Inc. or Interactive Brokers, Inc. execute trades recommended to Clients. TSI generally will seek competitive commission rates through S&P and Interactive Brokers, but will not necessarily attempt to attain the lowest possible commission for transactions. Commissions and transaction costs may be higher through S&P and Interactive Brokers and clients will in some cases pay higher commissions and transaction costs for executing transactions through S&P or Interactive Brokers vs. through other executing



broker/dealers, and in most cases, executing those same transactions through a discount broker/dealer. Specific custodian recommendations are made to Clients based on their need for such services. TSI recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

TSI *DOES* receive fees per the terms of the Fully Disclosed Clearing Agreements from these arrangements.

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**Best Execution**

TSI reviews the execution of trades at each custodian periodically. Transaction costs charged by S&P and Interactive Brokers is also reviewed on a periodic basis. Although the commissions and/or transaction costs paid by Clients shall comply with TSI's duty to obtain best execution, a Client may pay a commission that is higher than that charged by another qualified broker/dealer if TSI determines in good faith, that the commission is reasonable in related to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking in to consideration the full range of a broker/dealer's services, including the financial condition of such broker/dealer, the value of research provided, execution capability, commission rates, responsiveness, and systems and technology capability.

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**Soft Dollars**

PearlFinder GP, LP, an entity controlled by Vince Rowe (also an advisory rep of TSI) has entered into a soft dollar agreement with Interactive Brokers, LLC, ("IB"), also one of the executing brokers for TSI, pursuant to which certain research services and products as defined under Section 28(e) of the Securities Exchange Act are provided. These research services and products may include, without limitation, information on the economy, industries, groups of securities, individual companies, statistical information, technical market action, pricing and appraisal services, and trade execution services.

When client brokerage commissions are used to obtain research or brokerage services, TSI receives a benefit to the extent that it does not have to produce these products internally or compensate third parties with its own money for such services. Therefore, use of client brokerage commissions results in a conflict of interest because TSI has an incentive to direct client brokerage to those brokers who provide research and services TSI utilizes, even if those brokers do not necessarily offer the best price or commission rates for its clients.

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### **Order Aggregation**

Trade allocations are typically executed in a firm wash account at an average price basis and then allocated to individual client accounts. On occasion, TSI may allocate trades directly to individual Client accounts rather than through the firm wash account for execution purposes. Such situations may include but are not limited to transactions for thinly traded stock positions, options prohibited, newly established accounts, special needs of a client, or as directed by a client. All securities trades are allocated to client accounts upon execution or by the close of the trading day. There may be instances where a trade may be allocated on the next trading day following execution.

## **Review of Accounts**

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### **Periodic Reviews**

Account reviews are performed quarterly or otherwise by William K. Brinson, President and John A. Taylor, Director Emeritus. Account reviews are performed more frequently when market conditions dictate.

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### **Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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### **Regular Reports**

Account reviewers consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

Clients receive periodic communications (statements) regarding the status of their account(s) on at least an annual basis. Moreover, William K Brinson, President/CCO of TSI, publishes a monthly newsletter regarding general economic and market news which is distributed to all firm clients. Quarterly performance reports are also provided to clients.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

TSI has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

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**Referrals Out**

TSI does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

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**Other Compensation**

Investment advisory representatives are also registered representatives with S&P Investors, Inc. In such capacity, they may sell securities through S&P and receive commissions as a result of such transactions as may have been negotiated between TSI and S&P on a fully disclosed basis. These commissions and/or transaction costs are costs to Clients exclusive of and in addition to TSI's advisory fee. This presents a conflict of interest to the extent a representative recommends that a Client invest in a security which results in a commission being paid to the representative in addition to the investment advisory fee paid to TSI, which may in turn result in a Client paying higher overall transaction costs.

## **Custody**

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**Account Statements**

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

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**Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided on a quarterly basis by TSI.

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**Other Reports**

William K Brinson, President/CCO of TSI, publishes a monthly newsletter regarding general economic and market news which is distributed to all firm clients. Quarterly performance reports are also provided to clients.

## **Investment Discretion**

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**Discretionary Authority for Trading**

TSI accepts discretionary authority to manage securities accounts on behalf of clients. TSI has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, TSI consults with the client prior to each trade to obtain concurrence if a blanket trading authorization has not been given.

The client approves the custodian to be used and the commission rates paid to the custodian. TSI does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in a client's account on a client's behalf so that the firm may promptly implement the investment policy that the client has approved in writing.

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**Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. Firm clients execute a limited power of attorney so that the firm may execute the trades that the client has approved. In consultation with its clients, the firm determines an appropriate asset allocation and manages the account according to that guideline. Certain clients may restrict the purchase of particular stocks according to social concerns or other criteria.

## **Voting Client Securities**

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**Proxy Votes**

TSI does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, TSI will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

## **Financial Information**

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**Financial Condition**

TSI does not have any financial impairment that would preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because TSI does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$500 per client, and six months or more in advance.

## **Requirements for State Registered Advisors**

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All principal executive officers and management personnel are reflected on Schedule A of Form ADV. The business background and formal education for each individual is reflected on Part 2B of Form ADV.

All business information for TSI is reflected within this brochure.

As previously disclosed, general client advisory fees are not based on a share of the capital gains or capital appreciation of managed securities for advisory clients.

There are no disciplinary items to disclose.

There are no arrangements or relationships with issuers of securities by the firm or management persons to disclose that have not otherwise been disclosed in this brochure.