

**Item 1 – Cover Page**

# **Third Sigma Investment Advisors LLC**

## **Form ADV Part 2 Brochure**

This Brochure provides information about the qualifications and business practices of Third Sigma Investment Advisors LLC. If you have any questions about the contents of this Brochure, please contact us at 302-295-4990. 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 Third Sigma Investment Advisors LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Third Sigma Investment Advisors LLC is 151188.

Third Sigma Investment Advisors LLC is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training.

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Brochure prepared on February 23, 2012

## **Item 2 – Material Changes**

This section of the Brochure will address only those “material changes” that have been incorporated since our last delivery or posting of this document on the SEC’s public disclosure website (IAPD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Third Sigma Investment Advisor’s most recent update to Part 2 of Form ADV was made in February 2011.

### **Material Changes:**

#### Addition of Requirements for State Registered Advisers

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

Currently, our Brochure may be requested by contacting George Cones, Managing Member and Chief Compliance Officer, at 305-295-4990 or [George.cones@thirdsigmaadvisors.com](mailto:George.cones@thirdsigmaadvisors.com). Our Brochure is also available on our web site [www.thirdsigmaadvisors.com](http://www.thirdsigmaadvisors.com), free of charge.

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

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## **Item 4 - Advisory Business**

Third Sigma Investment Advisors LLC, ("Third Sigma", "We" or "the Firm") has been providing investment advice and portfolio management services since 2009. We provide asset allocation advice and discretionary implementation services for our clients, which means that we invest client portfolios on their behalf. We also provide custom advisory services on a project basis to institutional clients with larger investment portfolios.

Our professionals have over 45 years combined investment experience. This experience infuses our work and advice with a level of experience and expertise that we believe is often missing in other investment advisory firms. We aim to put our client's interest first. We offer sophisticated investment strategies based on diversification among and within asset classes, usually melding best-in-class active managers with index funds and Exchange Traded Funds (ETFs), to minimize underlying investment management expenses, which we believe to be a drag on many other investors' performance.

Our experience tells us that it makes sense to align our interests with those of our clients. Therefore, we do not act as a broker dealer or provide custody services. We do not receive commissions or other fees from third parties. Such arrangements are often filled with potential conflicts of interest.

Our fees are typically asset-based, based on total client assets, which we believe aligns our interests with our clients and helps us focus on the client's long-term success. We believe our fee structure is extremely competitive.

### **Our Philosophy**

We offer low-cost sophisticated investment solutions that serve the client first. We believe that it makes sense to implement client portfolios efficiently. By definition, any over-payment in fees and expenses reduces the investment return that clients and/or the plan participants receive. Some examples of how we invest client portfolios efficiently are below.

We invest dedicated equity and fixed income portions of client portfolios in mutual funds and ETFs managed by well-established investment firms with proven track records. For larger client we may use Separately Managed Accounts. We often use passive investments (index funds and index ETFs) that track well-known market indexes and market segments. We feel in many cases passive investments outperform active managers over the long term. Use of these active-passive strategies tends to reduce the overall underlying investment management cost of client portfolios. In some cases, active management does make sense where particular active managers have demonstrated that over the long run they can outperform a relevant benchmark and have the infrastructure in place to demonstrate they have a high likelihood of repeating that outperformance.

We believe that many investors, even institutional investors, rely too heavily on an active approach to portfolio management which leads to what we call "driving while looking through the rear-view mirror." Hiring and firing managers and getting in and out areas of the market can result in excessive changes to asset allocation and increased underperformance. Many times these reallocations take place right before resurgence in the asset class most recently abandoned. We take a careful and cautious approach to

portfolio allocation and implementation. We realize we can't be sure which way the markets are headed, so we work to plan for a range of possibilities, attempting to build investment portfolios that perform well in many scenarios.

## **Our Process**

Our investment process seeks to add value to client accounts in the following ways:

- Customized Asset Allocation
- Prudently Transitioning Out of Old Positions
- Cost-Effective Portfolio Implementation
- Ongoing and Systematic Allocation

The first step in our process is to analyze the existing investment portfolio to assess how we can add value as a manager. We work with the investor to understand the cash flow needs, return objectives, risk tolerances, as well as any legal and policy constraints which would impact investor objectives. Typically, depending on the investor's objectives, we determine how we would proceed to build a cost effective diversified portfolio.

If the investor decides to engage Third Sigma, the Third Sigma team, using their expertise and experience, begins to structure a portfolio that fits the investor's needs. If necessary, we carefully unwind the old portfolio and begin moving toward the new portfolio. We work to minimize costs, risks and capital losses. We have found that value can be added to the client's account through the transition process, especially in volatile market environments.

Third Sigma employs a strategic approach in which we assess how asset classes and market segments tend to perform relative to one another over an extended period of time. Our experience tells us investors often "fall in love" with one part of the marketplace and are as likely to loath another market segment. These love-hate relationships contribute to market volatility which may present opportunities for long-term investors. We believe disciplined investors can capture excess returns by taking advantage of exaggerated market movements in any direction.

Third Sigma's strategies generate cash flow from dividends, interest, and capital gains. Excess cash can be used to dampen volatility or to provide funds to capitalize on market opportunities on behalf of our clients. We believe that automatic reinvestment of dividends, interest, and capital gains can lead to investment in overvalued assets which may be destined to lose value on a relative basis. Our view is that it makes more sense to place this accumulated cash thoughtfully rather than automatically.

We ask our clients to give us full discretion over the asset allocation implementation and rebalancing as we feel that value can be added in this way. With full discretion to adjust the asset allocation within limits and also, to rebalance when appropriate, we are fully accountable for our performance and fully accountable to clients for their results.

Our clients may impose restrictions on investing in certain securities or types of securities. However, since we invest the majority of our clients' portfolios in very diversified global portfolios mutual funds and

ETFs, we consult with each client to discuss how such restrictions can be efficiently and practically accommodated.

### **Management Team**

We're an independent investment management firm, 92% employee owned by George Cones and Theodore Baker.

Our Management Team consists of:

**George Cones**, Managing Director, founded Third Sigma Investment Advisors, LLC in 2009. George has over 25 years of experience in the institutional investment community. George has served as a trustee, Executive Director, Chief Investment Officer, and a consultant to defined benefit plans and defined contribution plans. He has been working to determine asset allocation and implementation strategies since 1982. He is also licensed to practice law in Washington DC and Texas. George's education and experience gives him a unique perspective and knowledge of the inner workings of the investment management business, manager selection process and fund management.

**Theodore Baker**, Vice President, began his financial career in New York City in 1979. His institutional experience on Wall Street ranges from coordinating and placing IPOs to institutional equity sales. Returning to Wilmington, Ted worked with private clients at MBNA America and was instrumental in increasing the firm's deposit base five-fold from \$5 billion (in 1995) to nearly \$25 billion (in 2006). Ted's combination of equity and fixed income experience greatly benefits Third Sigma clients. Ted is the proud graduate of Delaware's public school system. He received a B.A. from Vanderbilt University in both Economics and History. He earned his Master's degree in International Business (MIBS) from the University of South Carolina. Ted is active in the local community and serves on the Board of Delaware Greenways.

Third Sigma Investment Advisors LLC provides investment advisory, pension and retirement consulting services separately or in combination to its clients. The primary clients for these services will be non-qualified and qualified plans including pension, profit sharing, 401(k) plans, trusts, corporations, deferred compensation plans and individuals. The various investment advisory and consulting services programs are designed to meet the specific needs and risk tolerance of each client and may include stocks, bonds, and/or no-load mutual funds, closed-end mutual funds, load mutual funds and preexisting variable insurance products and/or their sub-accounts. Service agreements may contain a written notification period for termination of services.

### **Investment Advice and Portfolio Management**

As stated above, we provide discretionary and non-discretionary portfolio management services and consulting services to individuals, trusts, estates and charitable organizations.

Investment advice and portfolio management is provided on a continuing basis that includes the appropriate allocation of managed assets among stocks, bonds, cash and alternative investments. Individual securities as well as investment vehicles such as mutual funds and ETF's may be utilized. The selection of specific securities aims to provide proper diversification to meet the client's stated investment

objectives within agreed upon risk tolerance parameters and the individual client's tax sensitivity. We do not provide investment advice only with respect to limited types of investments.

Our assets under management as of year-end 2011 are \$54,225,195.00 on a discretionary basis and \$8,362,848.00 on a non-discretionary basis.

## **Item 5 - Fees and Compensation**

### **Advisory Fee Schedule**

<u>Fee</u>	<u>Account Size</u>
0.70% to 1.00%	up to \$1.5 million
0.50% to 0.70%	over \$1.5 million.

Our fees are typically due and payable quarterly, in advance, and are based upon the net asset value of the account(s) as of the beginning of the respective quarterly period. We recommend that fees be deducted from client's account(s) since fees affect client returns. Fees are billed quarterly within five (5) days of the respective quarterly or monthly period.

Fees are calculated by multiplying the assets under management by the relevant percent and dividing such product by four if quarterly and twelve if monthly. Accounts opened in mid-billing period are assessed a pro-rated management fee. Advisory fees are negotiable.

### **Fee Based Retirement Plans**

We offer retirement solution alternatives to retirement plans and their sponsors. These services include: (i) a variety of investment options, including equity, fixed income and money market options utilizing mutual funds or ETFs; (ii) investment monitoring and reporting services; (iii) design and implementation of employee enrollment and education programs; and (iv) working with other plan professional, such as third-party administrators, actuaries, and custodians. We also provide and manage model portfolios for those clients who desire those services.

We strive to offer plan sponsors and participants a choice of competitively priced investment solutions. Third Sigma recommends institutional share class mutual funds and low cost ETF's where possible. This lowers the client's cost of the underlying investments as much as possible. Where non-institutional share classes are used (due to failure to meet the investment minimums or unavailability), often times our clients are able to recover 12b-1 fees received from fund families on select fund platforms. These fees can be re-allocated to the plan participants or used to pay for other administrative or similar fees. At the discretion of the client, these recaptured fees may be utilized to offset advisory fees.

We do not engage in any revenue-sharing with the funds that we recommend or select for clients as we believe this places us in a position of a conflict of interest with our clients.

## **Services for Qualified Plans**

Our advisory services for qualified plans are comprised of various services. Clients may choose to use any or all of these services, including but not limited to the following:

### **Consultation on Third Party Service Providers:**

- We will work with the client to evaluate, select, and monitor service provider alternatives, such as retirement plan providers, third-party administrators and custodians.

### **Investment Policy development and on-going monitoring of performance and adherence to investment policy and proxy guidelines, such as:**

- Preparation of plan Investment Policy Statement.
- Performance analysis not less frequently than quarterly of investments utilized by plan versus appropriate benchmarks and peer groups.
- Monitoring of investments selected by plan Sponsor for style drift and correlation with stated fund investment objectives.
- Monitoring of custodian to advise of changes in personnel, managers of underlying funds and other changes that a prudent fiduciary would deem relevant to the plan's investments.
- Make recommendations as to the voting of proxies, if any, with respect to the Plan's investments and make available records of such votes.

### **Employee Communications and Education**

- Enrollment meetings for participants.
- Education for participants regarding plan options.
- Provide information and education in response to participant inquiries.
- Provide individual financial planning consultation to plan participants.

### **Model investment portfolios, as investment selections:**

- Build, monitor and manage model portfolios, such as time horizon funds, which allows participants to invest in fund options in a manner that allows them to directly access to our selection and rebalancing investment expertise.

### **Qualified Plan Fee Schedule:**

Assets	Fee
\$1 million to \$5 million	40-60 Basis Points
\$5 million to \$10 million	30-40 Basis Points
\$10 million to \$50 million	10-30 Basis Points



Over \$50 million

Negotiable

The management fee, set forth in the schedule above, is payable in arrears at the end of each calendar quarter based on the total value of the account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the last trading day of the quarter.

If the account starts in the middle of a quarter, the management fee is prorated for the number of days remaining in the quarter. If an account is terminated in the middle of a quarter, the fee will be calculated based on the value of the account on the day of termination, prorated for the number of days in the quarter the account was under management. Although fees may be negotiated in some instances, they are generally based upon the above fee schedule.

Fees are calculated on an incremental basis and are subject to change with 30 days written notice. Notwithstanding the above, certain clients of Third Sigma with pre-existing relationships may initially be charged fees less than those set out above. With regard to employee-related accounts and certain other accounts, fees may be less, depending upon a number of factors, including portfolio size, length of employment and relationship to the employee.

For institutional clients Third Sigma may make discretionary asset allocation decisions, act as a manager -of-managers, or invest a portfolio of securities on a fully discretionary basis, the fee schedule is as follows:

Assets	Fee
\$1 million to \$5 million	60-70 Basis Points
\$5 million to \$10 million	40-60 Basis Points
\$10 million to \$50 million	30-40 Basis Points
Over \$50 million	Negotiable

**Consulting:** Third Sigma will provide any or all of the following investment advisory services related to the evaluation and selection of service provider alternatives, according to the terms of the plan sponsor Investment Policy Statement.

- **Investment Advice may include:**

- Preparation and/or modification of plan Investment Policy Statement under the direction and approval of the Plan sponsors
- Performance analysis not less frequently than quarterly of investments versus appropriate benchmarks and peer groups
- Monitoring of mutual funds, securities and other investments, selected by the Board or Investment Committee for style drift and correlation with stated fund investment objectives
- Monitoring of portfolio to advise of changes in personnel, managers of underlying funds and

other changes that a prudent fiduciary would deem relevant to the Plan's investments

The fee may be one of the following:

- For percentage of assets under consultation, the fee will be in the range of 0.10% to 0.70%
- Fixed Fee as mutually agreed upon with clients. The fee will be based on a number of factors including size of plan, number of participants, scope of services and other relevant factors.

The management fee, set forth in the schedule above, is payable in arrears at the end of each calendar quarter based on the total value of the account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the last trading day of the quarter.

If the account starts in the middle of a quarter, the management fee is prorated for the number of days remaining in the quarter. If an account is terminated in the middle of a quarter, the fee will be calculated based on the value of the account on the day of termination, prorated for the number of days in the quarter the account was under management. Although fees may be negotiated in some instances, they are generally based upon the above fee schedule.

To the extent mutual funds are selected the annual advisory fee set forth above does not include the customary fees and expenses associated with investing in mutual funds or other costs of establishing and maintaining an account with mutual funds including Rule 12b-1 fees and expenses. In addition to the annual advisory fee each mutual fund in which your assets are invested will incur separate investment advisory fees and other expenses for which you will bear a proportionate share.

All fees paid to Third Sigma for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds, ETF's and separate account managers. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. Accordingly, the client should review both the fees charged by the funds and the fees charged by Third Sigma to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

## **Termination**

The relationship between Third Sigma and clients may be terminated by either party upon thirty (30) days written notice depending on the individual contract terms. Upon termination of any account, any prepaid, unearned fees will be promptly paid by client, and any earned, unpaid fees will be due and payable. Our client agreements also requires that all fees will be paid within thirty (30) days of client's receipt of a statement from Third Sigma and acknowledges that late charges may be assessed at the rate of one and one-half percent (1.5%) of the invoice per month until paid in full.

The "Brokerage Practices" section further describes the factors that we consider in selecting or recommending broker-dealers for transactions and determining the reasonableness of their compensation (e.g., commissions).

## **Fee Payment Options**

As indicated in our advisory agreement with our clients, there are two options that may be selected for payment of our services:

- Direct debiting (preferred): at the inception of the relationship and each quarter thereafter, we will notify the client's custodian of the amount of the fee due and payable to Third Sigma pursuant to the fee schedule and contract. The custodian does not validate or check Third Sigma's fee nor its calculation of the assets on which the fee is based. The custodian will "deduct" the fee from the client's account(s) designated to pay advisory fees. Third Sigma recommends direct debiting because fees paid by the clients directly impact performance and we prefer that the client views all performance, including our own, taking into account all costs and fees. In addition, Third Sigma will issue an invoice for advisory services.
  - Each month, the client will receive a statement directly from the custodian showing all transactions, positions and credits / debits into or from the account; the statements after the quarter end will reflect these transactions, including the advisory fee paid by the client to Third Sigma. .
- Pay-by-check: At the inception of the account and each quarter thereafter, Third Sigma will issue an invoice for advisory services and the client pays Third Sigma by check or wire transfer within 15 days of the date of the invoice.

### **Additional Fees and Expenses**

Advisory fees payable to Third Sigma do not include the fees you will pay when we purchase or sell securities for your account(s). The following list of fees or expenses are what clients pay directly to third parties, whether a security is being purchased, sold or held in your account(s) under our management. These fees are charged are by the broker dealer / custodian.

Third Sigma does not receive, directly or indirectly any of these fees charged to clients. They may be paid to your broker, custodian or the mutual fund or other investment held. The fees include:

- Brokerage commissions;
- Transaction fees;
- Exchange fees;
- SEC fees;
- Advisory fees and administrative fees charged by Mutual Funds (MF), Exchange Traded Funds (ETFs)
- Advisory fees charged by sub-advisers (if any are used for your account);
- Custodial Fees;
- Deferred sales charges (on MF or annuities);
- Odd-Lot differentials;
- Deferred sales charges (charged by MFs);
- Transfer taxes;
- Wire transfer and electronic fund processing fees;
- Commissions or mark-ups / mark-downs on security transactions ;
- Among others that may be incurred.

In addition, we do not employ any employee that receives (directly or indirectly) any compensation from the sale of securities or investments that are purchased or sold for your account or to which Third Sigma provides consulting or advisory expertise / services. As a result, we are a "fee only" investment adviser. We do not have any potential conflicts of interest present that relate to any additional (and un-disclosed) compensation from clients or client assets that we manage.

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

We do not charge any performance-based fees, meaning fees that are based on a share of capital gains on or capital appreciation of the assets of a client.

## **Item 7 - Types of Clients**

We provide our services to a number of Clients:

- Individuals, including high net worth individuals
- Trusts, estates and charitable organizations
- Banks or thrift institutions
- Corporations or other business entities

### **Minimum Account Size**

Our minimum account size is typically \$300,000.00. This minimum is negotiable and client accounts may be aggregated to achieve the minimum. Fees and account sizes are subject to negotiation. In addition, we reserve the right to refuse to accept proposed management responsibilities or to resign from the management of any individual account.

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

### **Risk of Loss**

All investments in securities include a risk of loss of your principal (invested amount) and any profits that have not been realized (the securities were not sold to “lock in” the profit). As you know, stock markets, bond markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets we manage that may be out of our control. We will do our very best in the management of your assets; however, we cannot guarantee any level of performance or that you will not experience a loss of your account assets. Investing in securities involves risk of loss that clients should be prepared to bear.

### **Our Investment Strategies**

We offer several investment strategies to you and in doing so may invest in a wide range of securities and other financial instruments including:

- Equity securities
- Exchange-listed securities
- Over-the-counter securities
- Securities of foreign issuers (including ADRs, EDRs and GDRs)
- Warrants
- Rights
- Restricted shares
- Local access products
- Options contracts
- Corporate debt
- Commercial paper
- Certificates of deposit
- United States government securities
- Municipal securities
- Investment company securities including variable life insurance products
- Variable annuities and mutual funds
- Forward contracts
- Options on futures contracts
- Cap options
- Floor options
- Interest and principal only strips
- Structured notes
- Listed and over the counter derivatives
- Mortgage related and other asset backed securities
- Bank loans
- Collateralized debt obligations
- Collateralized mortgage obligations
- Foreign currency forward agreements
- Repurchase and reverse repurchase agreements
- Private placements

As financial markets and products evolve, we may invest in other instruments or securities, whether currently existing or developed in the future, when consistent with client guidelines, objectives and policies.

### **Security Analysis**

Our security analysis methods may include: charting, fundamental analysis, technical analysis, and cyclical analysis.

### **Sources of Information**

In conducting security analysis, we utilize a broad spectrum of information, including financial publications, third-party research materials, annual reports, prospectuses, regulatory filings, and company press releases.

### **Investment Strategies**

We employ a range of investment strategies to implement the advice we give to clients including: long-term purchases, short-term purchases, and trading.

## **Frequency Trading**

We do not engage in high-frequency trading.

## **Cash and Bond Management**

Typically each client's custodian "sweeps" non-invested cash balances in client accounts every day into a money market account selected by the client and offered as a service by the custodian. At the client's request, we will recommend the sweep vehicle among the choices offered by the custodian. In that case, we make a recommendation based on our understanding of the client's tax status and risk preferences.

Money market sweeps generally fall into three categories: government money market funds, prime rated money market funds, and tax-exempt money market funds.

## **Item 9 - Disciplinary Information**

We do not have any legal, financial or other "disciplinary" item(s) to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating us to initiate a relationship, or to continue a relationship with us. This statement applies to Third Sigma and every employee.

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

We have no items to report in this category.

## **Item 11 - Code of Ethics**

Third Sigma has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Third Sigma Investment Advisors LLC must acknowledge the terms of the Code of Ethics annually, or as amended.

## **Participation in Client Transactions**

Third Sigma anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Third Sigma has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Third Sigma and/or clients, directly or indirectly, have a position of interest. Our employees and persons are required to follow Third Sigma's Code of Ethics. Officers, directors and employees of Third Sigma may trade for their own accounts in securities which are recommended to and/or purchased for Third Sigma's clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees 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.

### **Personal Trading**

The Code of Ethics permits employees to invest in the same securities as clients, resulting in 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 to reasonably prevent conflicts of interest between Third Sigma and its clients.

Trades will be aggregated, and diligence will be maintained to insure that any trades made in an employee account does not have a better price than the clients' accounts. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Third Sigma and its clients.

### **Prohibition on Use of Insider Information**

We have also adopted policies and procedures to prevent the misuse of "insider" information (material, non-public information). A copy of such policies and procedures is available to any person upon request. You may request a complete copy of our Code of Ethics by contacting us at the address, telephone or email on the cover page of this Part 2.

## **Item 12 - Brokerage Practices**

Third Sigma supervises and directs the investments of the client accounts subject to such limitations as the client may impose in writing. Third Sigma, as agent and attorney-in-fact with respect to the client's account, without prior consultation with the client, may, (a) direct the purchase, sell, exchange, conversion, and otherwise trade in stocks, bonds and other securities including money market instruments, (b) direct the amount of securities purchased, sold, exchanged, and otherwise traded, (c) place orders for the execution of such securities transactions with third party broker dealers, and (d) determine the commission rates paid. We will allocate brokerage transactions in a manner it believes to be fair and responsible to our clients, and consistent with client objectives. Adhering to a strict formula will not be practicable given the variation in client objectives and guidelines.

In certain cases, we may provide advisory services on a non-discretionary basis, and we will recommend a transaction to a client who is responsible for approving such recommendation before the transaction is made. We will select such brokers that can effect transactions at the best price and execution under the prevailing circumstances. In managing investment portfolios, we act in a manner in keeping with what Third Sigma understands and believes to be the best interests of the client.

Mutual funds, ETFs, and in some cases, individual securities, are selected to provide capitalization and style diversification globally in a manner that is expected to achieve the desired balance between expected risk and expected return. Transactions of an unusual nature are discussed with clients before execution.

We do not participate in Directed Brokerage unless directed by the client to do so. We do not maintain agreements with referring brokers regarding our internal allocation of brokerage transactions. However, all or a sizable portion of a particular clients' brokerage transaction business may be directed to a particular broker if the client has directed, agreed or stipulated us to do so. Commissions are not intended to compensate brokers for client referrals.

If Third Sigma Investment Advisors LLC participated in directed brokerage, we are required to disclose that we may be unable to negotiate commissions, block or batch client orders or otherwise achieve the benefits described above, including best execution, if the client limits the Company's brokerage discretion. Directed brokerage commission rates may be higher than the rates we might pay for transactions in non-directed accounts. In addition, clients that restrict our brokerage discretion may be disadvantaged in obtaining allocations of new issues of securities that Third Sigma Investment Advisors LLC purchase or recommend for purchase in other clients' accounts. It is our policy that such accounts not participate in allocations of new issues of securities obtained through brokers and dealers other than those designated by the client. As a general rule, we encourage each client to compare the possible costs or disadvantages of directed brokerage against the value of the custodial or other services provided by the broker to the client in exchange for the directed broker designation.

### **Allocation of Investment Opportunities and Orders**

We have adopted the following policies and procedures related to the fair allocation of investment opportunities. These policies are designed to help ensure that each client receives fair and equitable treatment in the investment process:

- Investment ideas and/or research analyst recommendations are equally disseminated among all appropriate investment professionals responsible for selecting investments.
- While many client portfolios have differing investment objectives and size constraints, where transactions in the same security on behalf of more than one client with similar investment profiles, trades are aggregated to facilitate best execution and to reduce brokerage commissions and/or other costs, when possible.
- When orders cannot be aggregated, we employ a trading rotation process that is fair and objective among institutional and private client accounts, managed account sponsors and passively managed accounts.
- Aggregated executions to participating accounts are allocated in a fair, equitable and objective manner and permissible reasons are delineated for deviating from the standard methodology and the related approval requirements.
- IPOs are only allocated to accounts when the issuer meets the investment objectives of participating accounts as well as a review process for allocations.
- Secondary offerings are allocated using our standard methodologies taking into account situations in which securities are allocated by the issuer based on a client's existing holdings.
- Accounts in which our employees or affiliates have a beneficial interest, or in which Third Sigma Investment Advisors LLC has a conflict of interest, do not receive preferential treatment.

Our allocation procedures differ for each of our equity strategies.

When orders are generated, the decision on which accounts should participate, and in what amount, is based on the type of security or other asset, the present or desired structure of the various portfolios and the nature of the account's goals. Other factors include risk tolerance, tax status, permitted investment techniques and, for fixed-income accounts, the size of the account and settlement and other practical



considerations. As a result, we may have different price limits for buying or selling a security in different accounts. Portfolio information systems, portfolio reports and quality control reports permit us to consider these factors as appropriate.

When our investment professionals decide to sell a security regardless of tax considerations, both taxable and tax-exempt accounts are eligible for sale simultaneously. In situations where tax gains influence the sale, securities in the tax-exempt accounts may be placed for sale first, as additional time is needed to consider the tax implications for each taxable account. Conversely, when tax losses influence the sale, Third Sigma Investment Advisors LLC may prioritize taxable clients first, as the loss has a specific impact in a given year. In any event, the prioritization process is applied consistently over time.

## **Brokerage Selection**

### **Broker Analysis**

In an effort to achieve best execution, we consider the following factors in selecting brokers:

- Execution capability
- Order size and market depth
- Availability of competing markets
- Trading characteristics of the security
- Availability of accurate information comparing markets
- Quantity and quality of research received from the broker dealer
- Financial responsibility of the broker-dealer
- Confidentiality
- Responsiveness
- Ability and willingness to commit capital
- Availability of accurate information comparing markets
- The technology to process such data
- Other factors that may bear on the overall evaluation of best price and execution

Our order placement specialists are responsible for continuously monitoring and evaluating the performance and execution capabilities of brokers that transact orders for our client accounts to ensure consistent quality executions. In addition, we periodically review our transaction costs in light of current market circumstances, available published statistical analysis as well as other relevant information.

### **Principal vs. Agency Transactions**

We do not participate in principal or agency transactions.

### **Research Services/Soft Dollars**

We do not participate in soft dollar arrangements or research services. We will accommodate special client requests on broker selection, although we reserve the right to reject or limit certain instructions. Clients must also be aware of the consequences of specific instructions on restricting broker selection. For example, clients may instruct us to use brokers who accept commissions to purchase third party research or services, or may participate in commission recapture programs. Trades for these clients may be segregated from the aggregated clients' order and would no longer receive the advantages that may result from aggregating orders. For those times when such trades are placed after the aggregated order, these clients may be disadvantaged by the market impact of trading for other portfolios.

## **Cross Transactions**

We do not participate in cross transactions.

## **Trading Aggregation Practices**

When we trade the same security in more than one client account, we generally attempt to batch or “bunch” the trades in order to create a “block transaction.” Generally, buying and selling in blocks helps create trading efficiencies, prompt attention and desired price execution. We will place all or substantially all transactions to purchase or sell common stocks with the client’s “directed” broker, when applicable. (See the discussion below entitled, “**Directed Brokerage**”) Whenever possible, we will attempt to batch or aggregate trades for clients who use the same directed brokers in order to create a “block transaction.”

The commission amount and per share commission rate will differ between our clients with directed brokerage relationships due to the dollar value and the size (number of shares) of the trade for each account, and the total relationship between the client and their broker. Because each client may differ in portfolio size, investment objective, equity exposure and the extent of the relationship with their broker, we do not negotiate commission discounts on the block transaction itself.

## **Directed Brokerage**

Third Sigma does not participate in Directed Brokerage Programs unless directed by the client to do so. Third Sigma does not maintain agreements with referring brokers regarding our internal allocation of brokerage transactions. However, all or a sizable portion of a particular clients’ brokerage transaction business may be directed to a particular broker if the client has directed, agreed or stipulated us to do so. Commissions are not intended to compensate brokers for client referrals.

If Third Sigma participated in directed brokerage, Third Sigma is required to disclose that we may be unable to negotiate commissions, block or batch client orders or otherwise achieve the benefits described above, including best execution, if the client limits the Company’s brokerage discretion. Directed brokerage commission rates may be higher than the rates we might pay for transactions in non-directed accounts. In addition, clients that restrict Third Sigma’s brokerage discretion may be disadvantaged in obtaining allocations of new issues of securities that Third Sigma purchase or recommend for purchase in other clients’ accounts. It is Third Sigma’s policy that such accounts not participate in allocations of new issues of securities obtained through brokers and dealers other than those designated by the client. As a general rule, Third Sigma encourages each client to compare the possible costs or disadvantages of directed brokerage against the value of the custodial or other services provided by the broker to the client in exchange for the directed broker designation.

## **Other Fees in Connection with Trading**

In our efforts to achieve best execution of portfolio transactions, we may trade securities for client accounts by utilizing electronic marketplaces or trading platforms. Some of these electronic systems may impose additional service fees or commissions. We may pay these fees directly to the provider of the service or these fees may be included in the execution price of a security. Our intention is that we will only use such systems and incur such fees if we believe that doing so helps us to achieve the best execution of the applicable transaction, taking into account all relevant factors under the circumstances. For example, we will consider the speed of the transaction, the price of the security, our ability to block the

transaction and other factors discussed in this Brokerage Practices section in connection with trading of stocks and bonds.

### **Accounts with Different Investment Objectives**

It is possible that we may manage accounts of clients whose investment objectives are substantially different from one another. As a result, it is possible that it would be appropriate for us to sell a security “short” from one account while holding it “long” in another account. This may occur if we manage an account that involves significant short term trading or pursues unique options strategies. In general, however, our positions with regard to any security will be net long. We seek to avoid a conflict of interest by attempting to limit such situations to, for example, an instance in which there is a readily available supply of the securities being purchased or sold and the transactions in a security do not affect its market price.

### **Item 13 - Review of Accounts**

Accounts are reviewed by George Cones on at least a monthly basis. When market conditions, economic events or individual issuers prompt immediate review, accounts are reviewed more frequently and may be subject to daily monitoring. This is an ongoing process of analysis to ensure that client objectives are being met and tactical adjustments can be made to respond to changing market conditions.

Program clients receive monthly reports reflecting cash and securities positions, market value at the end of the month and the change in value from the previous period. In addition, clients receive statements from the custodians of their securities and/or the broker executing transactions for the account.

In addition, all clients receive separate monthly accounting reports from their portfolio custodian detailing all cash and asset transactions and activity. In general, meetings with clients are held quarterly or less frequently, according to the stated desires of each client. Reports include an analysis of all assets under management, and current and historical performance.

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

We do not participate in compensation arrangements related to client referrals.

### **Item 15 - Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client’s investment assets. Third Sigma Investment Advisors LLC urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

We do not have custody of client assets. Therefore, each client must select a custodian and may be required to pay custodian fees. Also, clients will incur brokerage and other transaction costs in the course of our management of their accounts. (See the section in this brochure entitled, "Brokerage Practices" for a discussion of how we make brokerage decisions that affect client accounts.) Clients will receive account statement from one or more qualified custodians covering the funds and securities in their account(s).

## **Item 16 - Investment Discretion**

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

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

### **Discretionary Management**

We have discretionary authority to make determinations regarding the securities that are to be bought and sold, as well as the quantities of such securities, for most clients. Such authority is provided in our contract with each client. In many cases, this discretion is subject to mutually agreed upon investment guidelines relative to the client's portfolio. We have model portfolio guidelines available for clients to adopt, in whole or in part, if they do not have their own. Client investment guidelines may or may not limit the scope of potential investments. As a result, clients can impose restrictions on investing in certain securities or types of securities. Within client guidelines and instructions, our Management Team (described above) makes decisions as to the nature and quantity of securities to be bought or sold.

Third Sigma maintains a Limited Power of Attorney for all discretionary accounts for the purposes of directing and or otherwise effecting investments on behalf of the managed account, for the direct payment of the Company's fees and or the payment of commissions, custodial fees and or other charges incurred by the managed account.

### **Wrap Account Management**

We do not participate in wrap account management.

## **Item 17 - Voting Client Securities**

Third Sigma generally constructs client portfolios using mutual funds and ETFs, rather than individual securities. Therefore, we generally do not have the occasion to vote proxies on individually held securities. That said, as a company, we take matters of shareholder rights very seriously and view the

proxy, or right to vote, as an asset of our clients' account(s). It is the policy of the Third Sigma to vote neither for nor against management, but in the best interests of the shareholders.

Clients may obtain a copy of our complete proxy voting policies and procedures upon request. Clients may also obtain information from Third Sigma Investment Advisors LLC about how Third Sigma Investment Advisors LLC voted any proxies on behalf of their account(s).

### **Proxy Voting Policies**

Our proxy voting policies include specific guidelines concerning the following:

- Auditors
- Boards of directors
- Proxy contests
- Anti-takeover provisions
- Corporate governance provisions
- Capital structure
- Compensation
- Mergers and acquisitions
- Socially oriented shareholder proposals

### **Performance Presentation Standards**

Third Sigma Investment Advisors LLC prepares and presents its reports in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS).

### **Privacy Notice To Customers**

We do not disclose nonpublic personal information about our individual clients or former clients except as permitted by law. We restrict access to nonpublic personal information about you (that we may obtain from your account and your transactions) to those employees who need to know that information to provide products or services to you or to alert you to new, enhanced or improved products or services we provide. We maintain physical, electronic and procedural safeguards that comply with federal standards to safeguard your nonpublic personal information.

Note that corporate, municipal, and other institutional clients may be identified as such in our firm's representative client or reference lists (the identities of individual, i.e. "natural person" clients are never so disclosed absent written client permission).

## **Item 18 - Financial Information**

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

## **Item 19 - Requirements for State-Registered Advisors**

### **George Cones**

Born in 1950

Bachelor's degree from the University of Houston, and a doctor of jurisprudence degree from the University of Houston Law Center.

#### **Business Background**

07/2009 to present, Third Sigma Investment Advisors LLC, Managing Member, CCO  
09/2006 to 08/2009, Raymond James & Associates, Financial Advisor, Registered Representative  
07/1995 to 08/2006, Techlogic, Inc., President, 100% owner  
11/1987 to present, George Cones, Attorney, Owner  
06/2004 to 09/2005, Tessera Capital Services, LLC, COO, Principal and Registered Representative  
11/2004 to 03/2005, Magna Securities Corporation, Registered Representative  
09/2002 to 03/2004, Rosemont Partners, Vice President

#### **Disclosure Statements**

- George Cones has never been found liable in an arbitration claim alleging damages.
- George Cones has never been found liable to in a civil, self-regulatory organization, or administrative proceeding.
- George Cones has never been the subject of a bankruptcy petition.
- George Cones does not have any disciplinary history to disclose.
- George Cones is the president of Techlogic, Inc. which is an Effectively Dormant Systems Consulting Firm and is an Attorney. Both of these businesses are dormant.

### **Theodore "Ted" Baker**

Born in 1954

Master of International Business Studies (MIBS)

University of South Carolina, 1979  
Bachelor of Arts, Double Major in Economics & History  
Vanderbilt University, May 1976

#### Business Background

01/2011 to present, Third Sigma Investment Advisors, LLC, Vice President  
07/2009 to present, Furniture Solution, Retail  
08/1994 to 4/2007, MBNA America (Wilmington, DE)  
1983 – 1988, New York City, NY, Merrill Lynch Capital Markets, Fox-Pitt Kelton, Inc., Needham & Co.  
1991 – 1993, Beneficial National Bank (Wilmington, DE)

#### Disclosure Statements

- Theodore Baker has never been found liable in an arbitration claim alleging damages.
- Theodore Baker has never been found liable to in a civil, self-regulatory organization, or administrative proceeding.
- Theodore Baker has never been the subject of a bankruptcy petition.
- Theodore Baker does not have any disciplinary history to disclose.
- Theodore Baker does not have any outside business activities to disclose.

#### Business Continuity Plan

We have a Business Continuity Plan that addresses how the Firm will respond to events that may disrupt its business. Our Business Continuity Plan covers data backup and recovery, mission critical systems financial and operational assessments, alternative communications, alternate business locations, regulatory reporting and the assurance of prompt access to funds and securities for our customers. If the main telephone line is inactive, the emergency number is 610-526-2235. If the emergency line is down, please contact your custodian. We will resume operations as quickly as possible (preferably within twenty-four hours) depending on the severity of the business disruption. A detailed Business Continuity Plan is available upon request.

#### Privacy Notice To Customers

We do not disclose nonpublic personal information about our individual clients or former clients except as permitted by law. We restrict access to nonpublic personal information about you (that we may obtain from your account and your transactions) to those employees who need to know that information to provide products or services to you or to alert you to new, enhanced or improved products or services we provide. We maintain physical, electronic and procedural safeguards that comply with federal standards to safeguard your nonpublic personal information.

Note that corporate, municipal, and other institutional clients may be identified as such in our firm's representative client or reference lists (the identities of individual, i.e. "natural person" clients are never so disclosed absent written client permission).

**George E. Cones**

**Third Sigma Investment Advisors LLC**

1000 North West Street, Suite 1200  
Wilmington, DE 19801  
302-295-4900  
February 10, 2011

This Brochure Supplement provides information about George Cones that supplements Third Sigma Investment Advisors LLC's Form ADV Part 2A Brochure. Please contact George Cones, Managing Member and Chief Compliance Officer if you did not receive Third Sigma Investment Advisors LLC's Brochure or if you have any questions about the contents of this supplement.

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



## **Educational Background and Business Experience**

### **George Cones**

Born in 1950

Bachelor's degree from the University of Houston, and a doctor of jurisprudence degree from the University of Houston Law Center.

#### **Business Background**

07/2009 to present, Third Sigma Investment Advisors LLC, Managing Member, CCO

09/2006 to 08/2009, Raymond James & Associates, Financial Advisor, Registered Representative

07/1995 to 08/2006, Techlogic, Inc., President, 100% owner

11/1987 to present, George Cones, Attorney, Owner

06/2004 to 09/2005, Tessera Capital Services, LLC, COO, Principal and Registered Representative

11/2004 to 03/2005, Magna Securities Corporation, Registered Representative

09/2002 to 03/2004, Rosemont Partners, Vice President

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item.

### **Other Business Activities**

Mr. Cones is the president of Techlogic, Inc. which is an Effectively Dormant Systems Consulting Firm. Mr. Cones is also an Attorney. Both of these businesses are dormant.

### **Additional Compensation**

Mr. Cones does not receive any additional compensation outside of Third Sigma Investment Advisors LLC.

### **Supervision**

George Cones is the Managing Member and Chief Compliance Officer of Third Sigma Investment Advisors LLC; therefore, he is responsible for his own supervision and that of all other investment adviser representatives of Third Sigma Investment Advisors LLC. He can be contacted at 302-295-4990.

# **Theodore Baker**

## **Third Sigma Investment Advisors LLC**

1000 North West Street, Suite 1200  
Wilmington, DE 19801  
302-295-4900  
February 10, 2011

This Brochure Supplement provides information about Theodore Baker that supplements Third Sigma Investment Advisors LLC's Form ADV Part 2A Brochure. Please contact George Cones, Managing Member and Chief Compliance Officer if you did not receive Third Sigma Investment Advisors LLC's Brochure or if you have any questions about the contents of this supplement.

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

## **Educational Background and Business Experience**

### **Theodore “Ted” Baker**

Born in 1954

Master of International Business Studies (MIBS)

University of South Carolina, 1979

Bachelor of Arts, Double Major in Economics & History

Vanderbilt University, May 1976

#### **Business Background**

01/2011 to present, Third Sigma Investment Advisors, LLC, Vice President

07/2009 to present, Furniture Solution, Retail

08/1994 to 4/2007, MBNA America (Wilmington, DE)

1983 – 1988, New York City, NY, Merrill Lynch Capital Markets, Fox-Pitt Kelton, Inc., Needham & Co.

1991 – 1993, Beneficial National Bank (Wilmington, DE)

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item

### **Other Business Activities**

Mr. Baker does not have any other investment related business activities.

### **Additional Compensation**

Mr. Baker does not receive any additional compensation outside of Third Sigma Investment Advisors LLC, except for as his role as non-investment consultant and assistant to Mr. Robert Cohen, owner of Furniture Solutions, located in Bear Delaware.

### **Supervision**

Theodore Baker is supervised by George Cones is the Managing Member and Chief Compliance Officer of Third Sigma Investment Advisors LLC. George Cones can be contacted at 302-495-4990.