

## **Firm Brochure**

(Part 2A of Form ADV)

### **SPRUCE HILL CAPITAL, LLC**

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This brochure provides information about the qualifications and business practices of Spruce Hill Capital, LLC. If you have any questions about the contents of this brochure, please contact us at: (203) 874-3133, or by email at: [jim@pnfm.net](mailto:jim@pnfm.net). 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 Spruce Hill Capital, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

April 30, 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 U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

Spruce Hill Capital updated its brochure in its entirety to comply with the new rule at the time of its annual update on March 31, 2011. While the content of this brochure has been updated through April 30, 2012, the changes are not material.

We review and update our brochure at least annually to make sure that it remains current.

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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: or by email at: [jim@pjnfm.net](mailto:jim@pjnfm.net).

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# Advisory Business

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## Firm Description

Spruce Hill Capital, LLC ("Spruce Hill Capital" or the "Firm") was founded in 1980.

The Firm provides investment and wealth management services for individuals, trusts, endowments, pension and profit-sharing plans, retirement plans and other legal entities.

The Firm seeks to provide maximum after-tax, risk adjusted returns over long term time horizons consistent with clients' investment objectives, which investment objectives take into account clients' desired risk levels, investment constraints and flexibility. The approach is based upon balance, diversification, and risk control. The Firm designs each portfolio individually. The Firm seeks good returns, commensurate with lower risk. The Firm researches every investment and only recommends those that meet stringent performance criteria. The Firm pursues its clients' investment objectives by investing client accounts in strategically selected investments, including mutual funds, stocks, bonds, fixed annuities, variable annuities, ETFs, closed-end funds and unit investment trusts.

The Firm does not act as a custodian of client assets. The client always maintains control of his or her assets. The Firm places trades for clients under a limited power of attorney through investment discretion.

A written evaluation of each client's initial situation may be provided to the client, often in the form of an investment policy 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.

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## Principal Owners

Peter J. Nagle is the principal owner of the Firm. Vincent M. Esposito is also an owner of the Firm.

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## Types of Advisory Services

Spruce Hill Capital provides investment supervisory services, also known as investment management services; and furnishes investment advice through consultations. On more than an occasional basis, the Firm furnishes advice to clients on matters not involving securities, such as financial planning matters, taxation issues, and trust services that often include estate planning.

The Firm also offers advisory services to qualified employee plans such as 401k plans, Taft-Hartley plans, 457 plans, 403b plans, SIMPLE IRA plans etc. offered through employers. Such plans are generally self-directed by the employee. That is, the Firm does not manage the assets for participants or

exercise any discretion over employee assets. Rather the participant makes her/his own decisions on which securities to choose for their own accounts. The Firm advises the Plan Trustees on plan structure, investment providers, investment choices to offer, and other administrative issues. The Firm also informs participants on investment choices, diversification, and other administrative issues related to their participation in the plan. The Firm charges a flat fee to the plan ranging from 0.25% to 1.0% depending upon the size of the plan and services required. This fee is negotiated by the plan trustees.

As of December 31, 2011, Spruce Hill Capital manages approximately \$148,184,285 in assets for approximately 346 clients. All of these assets are managed on a discretionary basis. These assets do not include amounts for which the Firm does not service a client on a regular or continuing basis.

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### **Tailored Relationships**

The goals and objectives for each client are documented in our client relationship management system. Investment policy statements are created that reflect the stated goals and objective. Clients may impose reasonable restrictions on investing in certain securities (for example, stocks) or types of securities (for example, stocks of foreign issuers). Clients are advised to promptly notify the Firm if there are ever any changes in their financial situation or if they wish to impose any reasonable restrictions upon the Firm's management services.

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### **Types of Agreements**

The following agreements define the typical client relationships.

Agreements may not be assigned without client consent. Transactions which do not result in an actual change in control or management are not considered an assignment.

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### **Investment Management Agreement**

Most clients choose to have the Firm manage their assets in order to obtain ongoing in-depth wealth management and life planning. All aspects of the client's financial affairs are reviewed. 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 Investment Management Agreement is provided to the client in writing prior to the start of the relationship. An Investment Management Agreement may include, depending upon the services required by the client: cash flow management; insurance review; investment management (including performance reporting); education planning; retirement planning; estate planning; and tax planning, as well as the implementation of recommendations within each area.

Although the Investment Management 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 Firm may terminate an Agreement by written notice to the other party.

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**Financial Planning Agreement**

A financial plan is designed to help the client with all aspects of financial planning without ongoing investment management after the financial plan is completed.

The financial planning process may include the following areas of review: retirement planning, estate planning, educational planning, elder planning, tax planning, long-term care planning, disability planning, budgeting and business planning.

Detailed investment advice and specific recommendations are provided as part of a financial plan. Implementation of the recommendations is at the discretion of the client.

The Firm may also provide financial consulting services. Financial consulting services include: portfolio evaluation, asset allocation, retirement planning, tax planning, estate planning, insurance needs, educational funding, cash flow analysis, and 401(k) analysis.

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**Investment Management**

Assets are invested primarily in no-load or load-waived mutual funds and exchange-traded funds, usually through discount brokers or fund companies. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds, however any transaction fees for the purchase and sale of securities is covered by the Firm.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate, however any transaction fees for the purchase and sale of securities is covered by the Firm. The brokerage firm charges a fee for stock and bond trades. The Firm does not receive any compensation, in any form, from fund companies.

Investments may also include: equities (stocks), municipal securities, investment company securities (variable annuities, and mutual funds shares), U. S. government securities, options, no-load or load waived limited partnerships, and ETFs.

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**Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying the Firm in writing 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, the Firm will refund any unearned portion



of the advance payment. If termination occurs within five (5) business days of entering into an agreement for services, the client is entitled to a full refund.

The Firm may terminate any of the aforementioned agreements at any time by notifying the client in writing. If the client made an advance payment, the Firm will refund any unearned portion of the advance payment.

Upon notice of termination, the Firm will await further instructions from the client as to what steps client requests to liquidate and / or transfer the portfolio and remit the proceeds. Upon instructions received, the Firm will instruct the client's broker-dealer, mutual fund sponsors and others to liquidate and / or transfer all or a portion of the portfolio. The Firm can make no representation regarding puts, holds, or other investment features that may limit a client's ability to liquidate or transfer all or a portion of the portfolio. In these cases, the Firm will consider their agreement terminated as per the language in the agreement and stated here. For information on features that may limit or impair the ability to sell or transfer an asset, the client is advised to review the prospectus or offering document.

## **Fees and Compensation**

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### **Description**

Spruce Hill Capital bases its fees on a percentage of assets under management, hourly charges and fixed fees. Lower fees for comparable services may be available from other sources.

Some agreements may be priced based on the complexity of work, especially when asset management is not the most significant part of the relationship.

The annual Investment Management Agreement fee ranges from 0.90% and 1.95% depending upon the market value of the assets under management and the type of investment management services to be rendered. Current client relationships may exist where the fees are higher or lower than the fee schedule above.

For financial planning services, the Firm will be compensated by an hourly fee of \$200, based on the complexity of the plan involved and the client's financial objectives and needs. The exact fees charged for these services will be specified in a client agreement executed before service begins.

Fees are negotiable and may be waived in the sole discretion of the Firm. The Firm may manage our employees; and/or family accounts for a reduced fee or free of charge.

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### **Fee Billing**

Investment management fees are billed quarterly, in advance, meaning that we invoice you before the three-month billing period has begun. Payment in full is expected upon invoice presentation. 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.

Financial plans are billed monthly as fees are incurred with payment due upon billing.

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**Other Fees**

The Firm does not provide custody services or take custody of a client's assets. The Firm recommends that clients establish accounts with TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), a FINRA-registered broker-dealer, member FINRA/SIPC/NFA, to maintain custody of clients' assets and to effect trades for their accounts. Although the Firm may recommend that clients establish accounts at TD Ameritrade, it is the client's decision to custody assets with TD Ameritrade. The Firm is independently owned and operated and not affiliated with TD Ameritrade.

As part of the agreement between the Firm and TD Ameritrade, the clients will not be charged a separate custody fee or transaction charges for the execution charges of securities transactions. This is otherwise known as a "wrap fee" program.

In addition, any mutual fund shares held in your account may be subject to deferred sales charges, 12b-1 fees, short-term redemption fees, and other mutual fund annual expenses. The fees and expenses are fully described in the fund's prospectus. All fees paid to the Firm for our services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers and such fees are therefore indirectly charged to all holders of the mutual fund shares. If you have mutual funds in your portfolio, you are effectively paying both the Firm and the mutual manager for the management of their assets.

The Firm, 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.).

Clients are advised that when securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and / or tax ramifications.

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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 the Firm.

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

The Firm reserves the right to stop work on any account that is more than 90 days overdue. In addition, the Firm 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 the Firm's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 90 days.

## **Performance-Based Fees**

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### **Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

The Firm does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Types of Clients**

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### **Description**

Spruce Hill Capital generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations or business entities.

Client relationships vary in scope and length of service.

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### **Account Minimums**

The Firm generally requires a minimum of \$250,000 in assets under management for managed accounts. Such minimum may be waived by the Firm in its sole discretion.

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

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### **Methods of Analysis and Investment Strategies**

Client assets will be managed proactively according to the specific goals and objectives of the client. 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.

Client portfolios are generally allocated among six major asset categories based upon a particular client profile and the relative strength of the asset

class. These asset classes are: domestic equities, international equities, commodities, bonds, foreign currency and cash. The Firm then engages in a technical analysis to determine the timing of buy and sell decisions.

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### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our 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**

Spruce Hill Capital is required to disclose whether there are legal or disciplinary events that are material to a client's or a prospective client's evaluation of our advisory business or the integrity of our management. The Firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

## **Other Financial Industry Activities and Affiliations**

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### **Financial Industry Activities**

Certain of the Firm's Investment Advisory Representatives, in their individual capacities, are also licensed insurance agents with various insurance companies, and in such capacity, may recommend the purchase of certain insurance products. A conflict of interest exists to the extent that the Firm recommends the purchase of insurance products where its Investment Advisory Representative receives insurance commissions or other additional compensation.

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

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### **Code of Ethics**

The employees of Spruce Hill Capital 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.

The Code provides for orientation on ethics rules to new employees and requires all covered persons, at least annually, to certify their understanding and compliance with the Code. The Firm strives to ensure that all personnel act in accordance with applicable regulations governing registered investment advisors.

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### **Participation or Interest in Client Transactions**

The Firm and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the Firm's *Compliance Manual*.

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### **Personal Trading**

The Chief Compliance Officer of the Firm is Peter J. Nagle. He reviews all employee trades each quarter. 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 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**

Specific custodian recommendations are made to Clients based on their need for such services. The Firm recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

The Firm generally recommends that clients utilize the brokerage and clearing services of TD Ameritrade for investment management accounts. The Firm participates in the Institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services that include custody of securities, trade execution, clearance and settlement of transactions. The Firm receives some benefits from TD Ameritrade through its participation in the Program. (Please see the disclosure under **Other Compensation** below.)

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### **Best Execution**

Spruce Hill Capital reviews the execution of trades at the custodian each quarter. The review requirements are documented in the Firm's *Compliance Manual*.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, and responsiveness.

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### **Order Aggregation**

Most trades are mutual funds or exchange-traded funds where trade aggregation does not garner any client benefit.

Transactions for each client generally will be effected independently, unless the Firm decides to purchase or sell the same securities for several clients at approximately the same time. The Firm may (but is not obligated to) combine

or “batch” such orders to obtain best execution or to allocate equitably among the Firm’s clients differences in prices that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among the Firm’s clients pro rata to the purchase and sale orders placed for each client on any given day. The Firm will not receive any additional compensation as a result of the aggregation of orders.

## **Review of Accounts**

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### **Periodic Reviews**

The Firm will conduct an initial interview with clients during which a member or employee of the Firm will obtain information to determine the client’s financial situation and investment objectives. This information will lead to the design of a portfolio appropriate for the client’s financial needs, time horizon, risk tolerance and investment objectives. Recommendations will be made to invest in a portfolio of securities, generally mutual funds, stocks, bonds, ETFs and other appropriate investments.

Firm client accounts are reviewed on a regular basis by the portfolio manager responsible for the account. There is no specific sequence in which accounts are reviewed. Rather, an ongoing review is in place. Additional reviews are initiated when, as, and if, market conditions dictate, client circumstances warrant, or any other pertinent factors surface. Thus, the frequency of reviews depends on the foregoing. Reviews are undertaken in context with a client’s current investment policy guidelines, individual security analysis, economic and market conditions, and client investment considerations.

In addition to the foregoing, all client accounts are viewed periodically to determine if they are in compliance with asset allocation ranges, risk levels, legal and tax constraints and any other restrictions or provisions set forth in the accounts investment process.

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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**

Clients receive a monthly or quarterly statement furnished by their custodian. On a quarterly basis, the Firm will also provide a portfolio review containing much the same information, along with performance data. The quarterly performance review typically includes holdings, cost data, current market values and performance data. The Custodian will provide tax data such as 1099 forms each year to clients. The Firm can also provide complete

gain/loss tax reporting on the portfolio to the client and / or the client's CPA each year, upon request.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

The Firm may pay referral fees to other professionals when a prospect or client is referred to the Firm.

The Firm may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, the Firm may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with the Firm and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise the Firm and has no responsibility for the Firm's management of client portfolios or the Firm's other advice or services. The Firm pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to the Firm ("Solicitation Fee"). The Firm will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by the Firm from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired the Firm on the recommendation of such referred client. The Firm will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

The Firm's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, the Firm may have an incentive to recommend to clients that the assets under management by the Firm be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, the Firm has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts



at other custodians, except when its fiduciary duties require doing so. Advisor's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

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**Referrals Out**

The Firm 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**

As disclosed above, the Firm participates in TD Ameritrade's institutional advisor program and the Firm may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between the Firm's participation in the Program and the investment advice it gives to its Clients, although the Firm receives economic benefits through its participation in the Program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Firm participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to the Firm by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by the Firm's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit the Firm but may not directly benefit its Client accounts. These products or services may assist the Firm in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help the Firm manage and further develop its business enterprise. The benefits received by the Firm or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, the Firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by the Firm or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Firm's choice of TD Ameritrade for custody and brokerage services.

Spruce Hill Capital also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to

any other independent investment advisors participating in the program. Specifically, the Additional Services payment for Markman Capital Insights, The Sherman Sheet, Moody's (Economy.com), Casey Report, Casey Big Gold, Orion Data Conversion, Roubini Global Economics, Morningstar, ETF Guide, Browning Newsletter, and TTS Wong Advisory. TD Ameritrade provides the Additional Services to the Firm in its sole discretion and at its own expense, and the Firm does not pay any fees to TD Ameritrade for the Additional Services. The Firm and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

The Firm's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to the Firm, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, the Firm's Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with the Firm, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, the Firm may have an incentive to recommend to its Clients that the assets under management by the Firm be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. The Firm's receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including to seek best execution of trades for Client accounts.

The Firm may receive succession planning, practice valuation, and equity management services from third-party vendors through the Firm's participation in the TD Ameritrade Institutional Equity Management Program. In addition to meeting the minimum eligibility criteria for participation in the TD Ameritrade Institutional Equity Management Program, the Firm may have been selected to participate in the TD Ameritrade Institutional Equity Management Program based on the amount and potential profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with the Firm and there is no employee or agency relationship between TD Ameritrade and the Firm. TD Ameritrade has established the TD Ameritrade Institutional Equity Management Program as a means of assisting independent unaffiliated advisors to grow and maintain their respective investment advisory business. TD Ameritrade does not supervise the Firm and has no responsibility for the Firm's management of client portfolios or the Firm's other advice or services to clients.

The Firm's participation in the TD Ameritrade Institutional Equity Management Program raises potential conflicts of interest. The Firm may encourage its clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to participate in the TD Ameritrade Institutional Equity Management Program, the Firm may have an incentive to recommend to clients that the assets under management by

the Firm be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. The Firm's participation in the TD Ameritrade Institutional Equity Management Program does not relieve the Firm of the duty to seek best execution of trades for client accounts.

## **Custody**

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### **Account Statements**

All assets are held at TD Ameritrade, a qualified custodian, which means the custodian 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 by the Firm.

## **Investment Discretion**

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### **Discretionary Authority for Trading**

The Firm accepts discretionary authority to manage securities accounts on behalf of clients. The Firm 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.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

## **Voting Client Securities**

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### **Proxy Votes**

The Firm will vote proxies on securities on behalf of clients. The Firm has adopted a general policy to vote proxy proposals, amendments, consents, and resolutions relating to investments held in client accounts in a manner that serves the best interests of the client and the value of their investments. A copy of our Proxy Voting Policies and Procedures is available upon request.

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### **Class Actions**

The Firm does not advise or act for clients in any legal proceedings, including bankruptcies or class actions, involving securities held or previously held by the account or the issuers of these securities

## Financial Information

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### Financial Condition

Spruce Hill Capital does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

## Business Continuity Plan

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### General

Spruce Hill Capital has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

### Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

In the event of a natural disaster, such as the loss of electrical power at the principal place of business of the Spruce Hill Capital, the Firm will use its best efforts to ensure that its clients are timely informed of alternative methods of communicating with members of Spruce Hill Capital or directly with the Custodian. These communication methods may include the internet, email, voicemail, as well as prior written notification to clients.

## Information Security Program

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### Information Security

Spruce Hill Capital maintains an information security program to reduce the risk that your personal and confidential information may be breached.

### Privacy Notice

Spruce Hill Capital is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, and information about transactions between you and third parties. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys and accountants with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

## **Wrap Fee Program Brochure**

(Appendix 1 to Part 2A of Form ADV)

### **SPRUCE HILL CAPITAL, LLC**

**2614 Boston Post Road**

**Guilford, CT 06437**

**(203) 874-3133**

**Fax (203) 874-3144**

**[www.pjnfmm.net](http://www.pjnfmm.net)**

This wrap fee program brochure provides information about the qualifications and business practices of Spruce Hill Capital, LLC. If you have any questions about the contents of this brochure, please contact us at: (203) 874-3133, or by email at: [jim@pjnfmm.net](mailto:jim@pjnfmm.net). 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 Spruce Hill Capital is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

**April 30, 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 Wrap Fee Program Brochure.

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### **Material Changes since the Last Update**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

Spruce Hill Capital updated its brochure in its entirety to comply with the new rule at the time of its annual update on March 31, 2011. While the content of this brochure has been updated through April 30, 2012, the changes are not material.

We review and update our brochure at least annually to make sure that it remains current.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, including the Wrap Fee program Brochure, please contact us by telephone at: (203) 874-3133 or by email at: [jim@pjnfm.net](mailto:jim@pjnfm.net).

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## Services, Fees and Compensation

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### Description of Program

Spruce Hill Capital, LLC ("Spruce Hill Capital" or the "Firm") offers its investment advisory services on a wrap fee basis. This means that the cost of the Firm's investment advisory services, the cost of executing brokerage transactions and custodial fees are "wrapped" into a single annual fee based on the value of the Client's portfolio. Investments offered in the wrap environment include equity, balanced and fixed income mandates. The Firm offers its investment advisory services to individuals, trusts, endowments, pension and profit-sharing plans, retirement plans and other legal entities.

The Firm's Wrap Program includes the following services:

- Ongoing consultation with a Financial Advisor
- Identification and analysis of Client's investment objectives and policy
- Ongoing management of Client's portfolio by a Financial Advisor
- Advisory fees of the Firm (except mutual fund fees)
- Custody of securities by TD AMERITRADE
- Automatic sweep of cash funds in Client's account into an interest bearing account
- Quarterly activity statements
- Quarterly performance evaluation
- Quarterly Market Overview/Newsletter
- Periodic review of Client's investment objectives and policy
- TD AMERITRADE brokerage commissions

A Client should consider that a wrap fee may or may not exceed the aggregate cost of services provided if they were provided separately depending upon, among other factors: (1) the amount of the wrap fee; (2) the level of portfolio activity in a Client's account; and (3) the value of custodial and other services provided under the wrap fee program.

The following information contained in this Wrap Fee Program Brochure can also be found in the Firm's more detailed Firm Brochure.

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### Fee Information

Fees are a percent of assets under management and are normally billed quarterly in advance, at rates ranging from 0.90% to 1.65%. The annual wrap fee includes the Firm's Investment Advisory Fee. Fees may be negotiated or waived as circumstances warrant. Clients may incur additional expenses as described below.

In addition to the advisory fees charged by the Firm, each mutual fund in which the Client's assets may be invested charges its own advisory fee and other expenses as described in the fund's prospectus.

The wrap fee does not include exchange fees, transfer taxes, certain brokerage related fees such as wiring charges and overnight shipping charges, and other fees required by law. A full schedule of additional fees is available upon request.

## **Portfolio Manager Selection and Evaluation**

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The Firm offers a wrap fee program only in the sense that a client pays a single fee. All investment recommendations are being made by the principals of the Firm. The Firm is not selecting sub-advisors or other investment managers who will then make investment decisions / recommendations for the clients.

## **Additional Information**

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### **Disciplinary Information**

Spruce Hill Capital is required to disclose whether there are legal or disciplinary events that are material to a client's or a prospective client's evaluation of our advisory business or the integrity of our management. The Firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

### **Other Financial Industry Activities and Affiliations**

Certain of the Firm's Investment Advisory Representatives, in their individual capacities, are also licensed insurance agents with various insurance companies, and in such capacity, may recommend the purchase of certain insurance products. A conflict of interest exists to the extent that the Firm recommends the purchase of insurance products where its Investment Advisory Representative receives insurance commissions or other additional compensation.

### **Code of Ethics**

The employees of Spruce Hill Capital 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.

The Code provides for orientation on ethics rules to new employees and requires all covered persons, at least annually, to certify their understanding and compliance with the Code. The Firm strives to ensure that all personnel act in accordance with applicable regulations governing registered investment advisors.

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**Participation or Interest in Client Transactions**

Spruce Hill Capital and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the Firm's *Compliance Manual*.

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**Personal Trading**

The Chief Compliance Officer of the Firm is Peter J. Nagle. He reviews all employee trades each quarter. 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.

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**Review of Accounts - Periodic Reviews**

The Firm will conduct an initial interview with clients during which a member or employee of the Firm will obtain information to determine the client's financial situation and investment objectives. This information will lead to the design of a portfolio appropriate for the client's financial needs, time horizon, risk tolerance and investment objectives. Recommendations will be made to invest in a portfolio of securities, generally mutual funds, stocks, bonds, ETFs and other appropriate investments.

Firm client accounts are reviewed on a regular basis by the portfolio manager responsible for the account. There is no specific sequence in which accounts are reviewed. Rather, an ongoing review is in place. Additional reviews are initiated when, as, and if, market conditions dictate, client circumstances warrant, or any other pertinent factors surface. Thus, the frequency of reviews depends on the foregoing. Reviews are undertaken in context with a client's current investment policy guidelines, individual security analysis, economic and market conditions, and client investment considerations.

In addition to the foregoing, all client accounts are viewed periodically to determine if they are in compliance with asset allocation ranges, risk levels, legal and tax constraints and any other restrictions or provisions set forth in the accounts investment process.

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**Review of Accounts - 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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**Review of Accounts - Regular Reports**

Clients receive a monthly or quarterly statement furnished by their custodian. On a quarterly basis, the Firm will also provide a portfolio review containing

much the same information, along with performance data. The quarterly performance review typically includes holdings, cost data, current market values and performance data. The Custodian will provide tax data such as 1099 forms each year to clients. The Firm can also provide complete gain/loss tax reporting on the portfolio to the client and / or the client's CPA each year, upon request.

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**Client Referrals - Incoming Referrals**

The Firm may pay referral fees to other professionals when a prospect or client is referred to the Firm.

The Firm may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, the Firm may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with the Firm and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise the Firm and has no responsibility for the Firm's management of client portfolios or the Firm's other advice or services. The Firm pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to the Firm ("Solicitation Fee"). The Firm will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by the Firm from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired the Firm on the recommendation of such referred client. The Firm will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

The Firm's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, the Firm may have an incentive to recommend to clients that the assets under management by the Firm be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, the Firm has

agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. Advisor's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

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**Client Referrals - Referrals Out**

The Firm 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**

The Firm participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., member FINRA/SIPC/NFA. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. The Firm receives some benefits from TD Ameritrade through its participation in the program.

As disclosed above, the Firm participates in TD Ameritrade's institutional advisor program and the Firm may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between the Firm's participation in the Program and the investment advice it gives to its Clients, although the Firm receives economic benefits through its participation in the Program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Firm participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to the Firm by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by the Firm's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit the Firm but may not directly benefit its Client accounts. These products or services may assist the Firm in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help the Firm manage and further develop its business enterprise. The benefits received by the Firm or its personnel

through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, the Firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by the Firm or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Firm's choice of TD Ameritrade for custody and brokerage services.

Spruce Hill Capital also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment advisors participating in the program. Specifically, the Additional Services payment for Markman Capital Insights, The Sherman Sheet, Moody's (Economy.com), Casey Report, Casey Big Gold, Orion Data Conversion, Roubini Global Economics, Morningstar, ETF Guide, Browning Newsletter, and TTS Wong Advisory. TD Ameritrade provides the Additional Services to the Firm in its sole discretion and at its own expense, and the Firm does not pay any fees to TD Ameritrade for the Additional Services. The Firm and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

The Firm's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to the Firm, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, the Firm's Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with the Firm, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, the Firm may have an incentive to recommend to its Clients that the assets under management by the Firm be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. The Firm's receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including to seek best execution of trades for Client accounts.

The Firm may receive succession planning, practice valuation, and equity management services from third-party vendors through the Firm's participation in the TD Ameritrade Institutional Equity Management Program. In addition to meeting the minimum eligibility criteria for participation in the TD Ameritrade Institutional Equity Management Program, the Firm may have been selected to participate in the TD Ameritrade Institutional Equity Management Program based on the amount and potential profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with the Firm and there is no employee or agency relationship between TD Ameritrade and the Firm. TD Ameritrade has established the TD Ameritrade Institutional Equity Management Program as a means of assisting independent unaffiliated advisors to grow and maintain

their respective investment advisory business. TD Ameritrade does not supervise the Firm and has no responsibility for the Firm's management of client portfolios or the Firm's other advice or services to clients.

The Firm's participation in the TD Ameritrade Institutional Equity Management Program raises potential conflicts of interest. The Firm may encourage its clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to participate in the TD Ameritrade Institutional Equity Management Program, the Firm may have an incentive to recommend to clients that the assets under management by the Firm be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. The Firm's participation in the TD Ameritrade Institutional Equity Management Program does not relieve the Firm of the duty to seek best execution of trades for client accounts.

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**Financial Condition**

Spruce Hill Capital does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

## Brochure Supplement (Part 2B of Form ADV)

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### Education and Business Standards

Spruce Hill Capital requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of financial planning and tax planning. Examples of acceptable coursework include: an MBA, a CFP®, a CFA, a ChFC, JD, CTFA, EA, WMS, AIF or CPA. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

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### Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

The CERTIFIED FINANCIAL PLANNER™, CFP® and federally registered CFP (with flame design) marks (collectively, the “CFP® marks”) are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. (“CFP Board”).

The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP® certification in the United States.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

- Education – Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board’s studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor’s Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board’s financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning;
- Examination – Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one’s ability to correctly diagnose financial planning issues and apply one’s knowledge of financial planning to real world circumstances;



- Experience – Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and
- Ethics – Agree to be bound by CFP Board's *Standards of Professional Conduct*, a set of documents outlining the ethical and practice standards for CFP® professionals.

Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

- Continuing Education – Complete 30 hours of continuing education hours every two years, including two hours on the *Code of Ethics* and other parts of the *Standards of Professional Conduct*, to maintain competence and keep up with developments in the financial planning field; and
- Ethics – Renew an agreement to be bound by the *Standards of Professional Conduct*. The *Standards* prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board's enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

The WEALTH MANAGEMENT SPECIALIST, WMS marks are professional certification marks granted by Dearborn Financial Services of Kaplan University. The WMS certification is a voluntary certification; no federal or state law or regulation requires financial advisors to hold WMS certification. The candidate for a WMS takes one online course that is divided into ten lessons. A quiz must be passed after each lesson, and a final comprehensive examination must also be passed. The candidate must also agree to abide by the code of ethics. To maintain the designation, continuing education must be completed each year.

The ACCREDITED INVESTMENT FIDUCIARY AIF® marks are professional certification marks granted by the Center for Fiduciary Studies. The AIF® certification is a voluntary certification; no federal or state law or regulation requires financial advisors to hold AIF® certification. Those who earn the AIF® mark successfully complete a specialized program on investment fiduciary standards of care and subsequently passed a comprehensive examination. AIF® designees demonstrate a thorough understanding of the Center for Fiduciary Studies' Prudent Standards for investment advisors and stewards.

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**VINCENT M. ESPOSITO, WMS, AIF**

Born 1971

Educational Background:

- Southern Connecticut University, BS, 1994

Business Experience:

- Spruce Hill Capital, LLC: November 2010 to Present
- Esposito Financial: September 2003 to Present
- Commonwealth Financial Network (Registered Rep), September 2003 to November 2010

Additional Compensation: None

Supervision:

Mr. Esposito is supervised by Mr. Peter J. Nagle, the Chief Compliance Officer of the Firm. He reviews Mr. Esposito's work through frequent office interactions as well as remote interactions.

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None