

# MK Capital Advisors, LLC

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

April 24, 2013

6005 Hidden Valley Road 290  
Carlsbad, CA 92011  
(O )858-217-5347  
(F) 443-269-0458  
[www.mkcapllc.com](http://www.mkcapllc.com)  
admin@mkcapllc.com

This brochure provides information about the qualifications and business practices of MK CAPITAL ADVISORS, LLC. If you have any questions about the contents of this brochure, please contact us at: 858-217-5347, or by email at: ADMIN@MKCAPLLC.COM. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

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

## Item 2: Material Changes

Please note the following material changes for this Brochure dated April 24, 2013, which contains several material changes.

Under Item 1, please note that MK Capital Advisors, LLC ("MKCAP" or the "Firm") has changed its business address and fax number to: 6005 Hidden Valley Road #290, Carlsbad, CA 92011; Facsimile: (443) 269-0458.

Under Item 9, please note that there is a pending FINRA arbitration matter in which Mr. Seid is named as an individual. In July 2012, Mr. Seid was named in a FINRA arbitration matter involving a former client of the previous owner of Martin Kelly Capital Management LLC ("Martin Kelly"). Mr. Seid has never met or talked to the claimant, nor serviced the client account nor was involved in any investment decisions involving the claimant. The claimant alleges several causes of action as a result of investments in the private fund area. As of today, Mr. Seid neither owns nor is associated with Martin Kelly in any respect.

Under Item 10, please note Other Financial Industry Activities and Affiliations, language referring to Mr. Seid's ownership of Martin Kelly Advisors, LLC has been removed as Mr. Seid no longer is affiliated with the entity as of 11/01/2012. In addition, Item 10 was expanded upon to include Mr. Seid's new involvement in Axxcess Healthcare Group, LLC, a firm specializing healthcare ventures, strategic advice, and investment banking. Services provided by Axxcess Healthcare Group, LLC include capital raising for hospital development, medical devices, biologics and various other healthcare business ventures.

Our prospective and existing clients are strongly encouraged to read this brochure in its entirety prior to engaging MKCAP for any advisory services.

Pursuant to SEC Rules, MKCAP will ensure that clients receive a summary of any material changes to this Brochure within 120 days of the close of MKCAP's fiscal year end, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as MKCAP experiences material changes in the future, we will send you a summary of our "Material Changes" under separate cover. For more information about the firm, please contact us by telephone at: 858-217-5347 or by email at: [admin@mkcapllc.com](mailto:admin@mkcapllc.com).

Additional information about MKCAP and its investment adviser representatives is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

ITEM 3: TABLE OF CONTENTS

<u>Item Number</u>	<u>Page</u>
ITEM 1: COVER PAGE.....	i
ITEM 2: MATERIAL CHANGES.....	ii
ITEM 3: TABLE OF CONTENTS.....	iii
ITEM 4: ADVISORY BUSINESS.....	1
ITEM 5: FEES AND COMPENSATION.....	5
ITEM 6: PERFORMANCE-BASED FEES & SIDE BY SIDE MANAGEMENT.....	6
ITEM 7: TYPES OF CLIENTS .....	6
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	6
ITEM 9: DISCIPLINARY INFORMATION.....	9
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	10
ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING....	11
ITEM 12: BROKERAGE PRACTICE .....	12
ITEM 13: REVIEW OF ACCOUNTS.....	16
ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION .....	16
ITEM 15: CUSTODY.....	17
ITEM 16: INVESTMENT DISCRETION.....	18
ITEM 17: VOTING CLIENT SECURITIES.....	18
ITEM 18: FINANCIAL INFORMATION.....	19

#### **Item 4: Advisory Business**

##### **Firm Description**

MK CAPITAL ADVISORS, LLC ("MKCAP") is a San Diego, California based investment management firm founded in 2012. MKCAP currently is registered with the Securities and Exchange Commission ("SEC") as an investment adviser conducting business in a number of states, which are reflected in Part 1 of our Form ADV, a copy of which can be found on [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

MKCAP is an independent investment and advisory firm that is client-centered in its mission. Our client base includes many different types of individuals and institutions, so we have developed a wide array of services dedicated to meeting the distinct needs of each. We are fee only advisors, and work with clients on a per project, hourly, or on an asset based relationship.

Advice is provided through consultation with the client and may include: determination of financial objectives, risk assessment, risk management, capital allocation and budgeting, identification of financial problems, cash flow management, tax planning, insurance review, investment management, retirement plan design, installation, and management.

To meet the distinct needs of each type of client and their consultants or advisors, each of our services are unified by the firms overall mission:

- Retain our client relationships by putting their interests first.
- Invite collaboration and partnership with client's existing advisors.
- Ensure clear, transparent communication
- Mandate the highest standard of professional conduct, firm ethics, and client privacy

We are an employee owned firm and provide our clients with stability and continuity. Our fee-only service requires our advice to be objective. Our open-architecture allows us to pick and choose products and services that are aligned with our client's best interests. We have built strategic alliances with the largest banks, brokerage, and trust platforms.

We have only one business - meeting the financial requirements of our clients. We are interested in working with complex problems, where we can draw on the strengths of multiple internal and external resources. To this end, the firm is counseled by a senior Advisory Board, consisting of experienced and knowledgeable industry professionals, that provides business and investment advice to the firm on a macro level. Additionally, MKCAP limits the number of clients we serve, which allows us to devote more time to managing, and retaining our relationships. Client net worth ranges between \$2 mm and \$200 mm.

##### **Principal Owners**

Michael Seid is the managing member and sole owner of MKCAP.

## **Types of Advisory Services**

As a firm focused on our existing client base comprised of family offices, high net worth investors, business owners, and retirement plans. MKCAP provides services in the following areas:

### **CORE Services**

Our CORE services are focused on wealth management. MKCAP provides investment advice and/or investment management solutions based on the client's needs and objectives. Context is a key driver for investment decisions, and our CORE services are highly tailored to each client, as we do not manage a "one size fits all" model portfolio. Our client accounts are monitored on a continuous basis and focused on meeting current, and evolving financial needs. Context is arrived by staying relevant with key client economic decisions. MKCAP will review the client's current financial position taking into account the stated financial goals and objectives of the client. MKCAP will frequently establish and formalize a customized investment policy statement for each client or account being managed.

### **Advisory Services**

MKCAP provides advisory services to client projects which may or may not be related to wealth management and investment strategy. Advisory services are focused on areas that you typically don't see on a statement, such as real estate, and business interests, or diligence activities. Many of our clients rely on us for advice in a variety of financial decisions with respect to their family office establishment and governance, purchasing or selling businesses, or raising capital, negotiating, and structuring deals. Advisory services may be offered in conjunction with other services offered by MKCAP as described below. MKCAP does not provide legal or tax advice.

### **Corporate Services**

MKCAP also provides services for companies and organizations. Services include: Company sponsored qualified, and non-qualified Retirement Plan Advisory Services, Plan Installation Consultation (includes Statement of Investment Policy, and initial plan investment selection), and Plan Consultation (includes participant enrollment meetings, ongoing 404(c) compliance consultation, Investment Due Diligence and Third Party Investment Reporting). MKCAP has adopted the FI360 ([www.fi360.com](http://www.fi360.com)) model for fiduciary best practices and seeks to apply the fi360 standard for investment stewards, advisors, and managers. MKCAP will also conduct formal fiduciary best practices reviews (Level I, II, III) for corporate clients seeking to verify fiduciary excellence, and compliance.

As part of our Corporate Services Consulting MKCAP furnishes advice to clients on matters not involving securities, such as capital formation, investment structure, financial risk management, financial planning matters, and trust services that may include estate planning. Capital placement activities are not handled by MKCAP, but through our affiliated boutique investment bank, Axxcess Capital.

## **Tailored Relationships**

MKCAP makes a point to know our clients' life circumstances in order to implement individually tailored financial solutions. Meeting the needs of each client, in order to sustain a relationship that creates value for the client, requires depth of knowledge, routine contact, and a requirement to collaborate with a client's existing advisors.

The goals, objectives and financial profile, for each client are documented in our client relationship management system. Investment policy statements are created for certain clients, which reflect the stated goals and objectives of those Clients. Clients may impose restrictions on investing in certain securities or types of securities.

### **Advisory Services**

Most clients choose to have MKCAP advise them on matters related to their businesses, their wealth management, and their implementation of investment strategy. Prior to providing advisory services, MKCAP's clients enter into an advisory services agreement, known as the MK Engagement Agreement.

MKCAP provides CORE investment advisory services to its clients on a discretionary or non-discretionary basis. The advisory services include, among other things, providing advice regarding both tactical, and strategic asset allocation, and the selection of investments. However, MKCAP may also provide additional consulting services on investment-related matters. MKCAP's CORE advisory services are guided by the stated objectives provided for in a client profile or investment policy statement. MKCAP considers the client's risk tolerance and financial status prior to making any recommendations.

As noted, MKCAP also provides other consultation services, which include financial planning, capital placement, wealth management and advisement on financial matters to businesses, high-net worth individuals, Family Offices, and companies. Clients interested in advisory consulting services sign a consulting services agreement in addition to the MK Engagement Agreement.

MKCAP may also recommend third party managers and or wrap-fee programs ("TPMs") who have full investment discretion, and trading authority. These TPMs have sole responsibility for the implementation of the investment program with respect to the client's account for which investment discretion has been delegated by the client and accepted by the institutional money managers. MKCAP does not place orders for transactions in the client's account or otherwise exercise trading authority over an account managed by a TPM or wrap-fee program sponsor. TPMs and wrap-fee program sponsors recommended by MKCAP to its clients are subject to a rigorous due diligence process. Factors considered by MKCAP in its determination of whether to recommend a TPM or wrap-fee program include, but are not limited to: regulatory compliance, reputation, performance record, philosophy, continuity of management, service to clients, awareness of after tax performance objectives, minimum dollar investment requirement and fees. Information about TPMs and wrap-fee program sponsors (*e.g.*, performance figures, investment style, etc.) is obtained from tracking organizations, business publications, money managers, personal interviews and other sources which we believe are reliable. MKCAP may also consider other criteria, including, but not limited to, the administration, recordkeeping and reporting services provided by a manager or sponsor. MKCAP may also retain outside consultants to assist in preparing TPM search lists. In the event that MKCAP retains an outside consultant, MKCAP will make the final determination regarding which TPMs or wrap-fee program sponsors are made available to clients.

The terms and conditions under which the client shall engage a TPM or wrap-fee program sponsor shall be set forth in separate written agreements between (1) the client and MKCAP and (2) the client and the designated TPM and/or wrap fee program sponsor. MKCAP shall continue to render advisory services to the client relative to the ongoing monitoring and review of account performance, for which MKCAP shall receive an annual advisory fee which is based upon a percentage of the market value of the assets being managed

by the designated TPM and/or wrap fee program sponsor. Factors that MKCAP shall consider in recommending TPMs and/or wrap fee program sponsors include the client's stated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated TPM and/or wrap fee program sponsor and corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, MKCAP's investment advisory fee set forth in Item 5 below. In addition to this Brochure, the client shall also receive the written disclosure statement of the designated TPM(s) and wrap-fee program sponsor(s). Certain TPMs and wrap-fee program sponsors may impose more restrictive account requirements and varying billing practices than MKCAP. In such instances, MKCAP may alter its corresponding account requirements and/or billing practices to accommodate those of the TPM(s) or wrap-fee program sponsor(s).

MKCAP may also refer clients to certain TPMs or wrap-fee programs where MKCAP's compensation is included in the advisory fee charged by the TPM. In such cases, MKCAP will be compensated for its services by receipt of a fee to be paid directly by the TPM to MKCAP in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities laws, rules, regulations, or requirements. Any such fee shall be paid solely from the TPM's investment management fee or the program fee of the wrap-fee program (as appropriate), and shall not result in any additional charge to the client. MKCAP currently does not have any such relationship with a TPM that pays compensation to MKCAP.

MKCAP also may render non-discretionary investment management services to clients relative to: (1) variable life/annuity products that they may own, and/or (2) their individual employer-sponsored retirement plans. In so doing, MKCAP either directs or recommends the allocation of client assets among the various mutual fund subdivisions that comprise the variable life/annuity product or the retirement plan. The client assets shall be maintained at either the specific insurance company that issued the variable life/annuity product which is owned by the client, or at the custodian designated by the sponsor of the client's retirement plan.

Should a client decide to implement any recommendations contained in a financial plan prepared by MKCAP, the client may, but is under no obligation to, utilize MKCAP to implement those recommendations and there is no assurance that MKCAP's financial planning services or any products recommended by a financial plan are at the lowest available cost. Clients should be aware that if the client implements the financial plan through MKCAP, the Firm will receive additional payment from the client in the form of advisory fees. This may act as an incentive to MKCAP to make certain recommendations in the financial plan or to advise the client to instruct SF to implement the plan.

#### **Termination of Advisory Services**

MKCAP and its clients may terminate advisory and other related services by written notice for any reason and such termination is effective upon the date specified in the notice. Prior to the effective date of such termination, Client will provide MKCAP with written instructions as to the liquidation or settlement of the Account, which instructions may limit the discretion of MKCAP to enter into further transactions after the date such instructions are received. MKCAP agrees to be bound by such instructions after receipt thereof. It is understood that MKCAP shall be entitled to a pro rata portion of its fee, based upon the number of months of representation until the date of termination. Such termination shall not, however, affect liabilities or

obligations incurred or arising from transactions initiated under this agreement prior to such termination of this Agreement. If the Client terminates this Agreement within five (5) business days of its signing, the Client will receive a full refund of all fees and expenses.

### **Assets Under Management**

As of December 31, 2012, the following represents the amount of client assets under management by MKCAP on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$6,111,731
Non-Discretionary	\$148,564,174
Total:	\$154,675,905

### **Item 5: Fees and Compensation**

For the CORE investment advisory and financial planning services provided, MKCAP can charge an annual fee of .35%-2% dependent upon the client's assets under management, and upon the level of services provided. Currently, the maximum fee charged to any client is 1% or less. Clients may be provided with a flat or hourly fee for additional services rendered and agreed upon by the client as set forth in the client's MK Engagement Agreement. In certain cases, family or friends of MKCAP's employees, independent consultants and associated persons, or others may have all fees waived at the discretion of MKCAP based on 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.). MKCAP's advisory fees are exclusive and do not include certain charges imposed by third parties such as execution costs, custodial fees, mutual fund fees and expenses, and management fees charged by third party managers or advisors. These other fees and expenses will be paid out of the assets in the clients account, and are in addition to the advisory fees charged by MKCAP.

### **Fee Billing**

As set forth in the MK Engagement Agreement, advisory fees for limited or non-discretionary accounts are payable either quarterly in arrears at the end of each calendar quarter based on the average of the 3 preceding end of month values of the Client's account, or aggregated accounts, or for discretionary accounts, fees are billed upfront, based on the account value on the first day of the calendar quarter. The fee is invoiced to the custodian of record and debited from the Client's account as soon as practicable following the last business day of the proceeding calendar quarter. No additional fees are assessed for special reports, services or meetings, except in extraordinary circumstances and Client will be notified in the event of such a circumstance. Client engagements entered into during a calendar quarter are charged a pro-rated portion of this fee for the initial quarter of advisory and management services. Thereafter, the full fee is charged. Accounts closed during a calendar quarter will have the advisory fee pro-rated for the period during which the account was open. MKCAP is authorized through the MK Engagement Agreement to invoice the custodian directly and debit Client's account for such fees. Fees collected are reflected on the client's brokerage statements, and invoices are available on request.



Clients may make additions to and withdrawals from their accounts at any time, subject to MKCAP's right to terminate an account. If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter. Clients may withdraw account assets on notice to MKCAP, subject to the usual and customary securities settlement procedures. MKCAP designs its portfolios as long-term investments and asset withdrawals may impair the achievement of a client's investment objectives.

MKCAP believes its fees are fair, reasonable and consistent with those fees charged in the industry for similar services and products. However, similar services may be available from other Advisers at greater or lower fees.

#### **Item 6: Performance-Based Fees & Side by Side Management**

Fees of MKCAP are not based on a share of the capital gains or capital appreciation of managed securities. MKCAP does not charge performance-based fees (i.e. fees calculated based on a share of capital gains upon or capital appreciation an advisory client's portfolio). Consequently, MKCAP does not engage in side-by-side management of accounts that are charged another type of fee (such as assets under management).

#### **Item 7: Types of Clients**

##### **Description**

MKCAP generally provides investment advice to family offices, corporations and other business entities, individuals, banks or thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, or charitable organizations.

##### **Account Minimums**

We currently do not have an account minimum or "relationship" minimum, but we do reserve the right to accept or decline a potential client for any reason in our sole discretion.

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

Investment advice is an integral part of our process. The firm uses a multi asset class, multi disciplinary approach with the belief that no two clients are identical. Therefore the firm does not manage client investment portfolios on the basis of a "one size fits all" model portfolio.

Investment advice is provided with the client making the final decision on investment selection in most cases. Some accounts that the firm oversees are handled on a fully discretionary basis. Clients have the choice to work on a limited or full discretion basis. In most cases, an evaluation of each client's initial situation is provided. 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.

Our process is rooted in these simple themes:

Diversify your assets: You must look beyond the traditional pie chart, and you are at great risk if you believe a passive long only index investing approach. Correlations matter, and manager talent matters. Avoid market

timing: Investors tend to follow trends, getting excited when the media over emphasizes select aspects of a market or component of the economy.

Keep fees to a minimum: In a single-digit return environment, the reduction of fees can represent a statistically significant increase in investment returns, and your wealth. Our multi family office structure allows our clients to benefit with a very competitive fee structure.

You are not a model: We construct, manage, and monitor portfolios that are customized and optimized to you. Your unique return, risk, liquidity, income profile, tax circumstance, and allocation objectives are blended with your experience and expectations. While efficiencies and execution are essential, we have yet to meet two clients that were exactly the same.

Communication: Our reporting and aggregation systems are industry leading and keep your complex financial picture clear to you. Daily.

Our Investment Oversight Committee ("IOC") meets weekly, and intelligently synthesizes diverse economic views and top investment research, allowing the IOC to manage asset allocations designed to maximize after-tax, after-fee, risk-adjusted returns.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis.

## **Methods of Analysis**

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis. The principal sources of this information includes commercially available investment services, financial newspapers and magazines, mutual fund rating services, annual reports, prospectuses and filings with the Securities and Exchange Commission.

MKCAP primarily uses fundamental and technical analysis when evaluating investments. Security selection is done using a number of tools, including commercially available software technology, security rating services, general market and financial information and specific investment analysis requested by the client.

MKCAP's advice is primarily based on long-term investment strategies that incorporate the principles of modern portfolio theory. Our belief is that investors' returns are determined principally by asset allocation decision, not market timing. Individual securities are screened based on the basis of company financial strength, growth characteristics and overall ability to meet client objectives.

Assets are invested primarily in no-load mutual funds, stocks, separately managed accounts, collective investment trusts, exchange-traded funds, bonds, notes, municipal securities, structured products, closed end funds, hedge funds, real estate private equity funds, warrants, corporate debt securities, commercial paper, certificates of deposit, investment company securities, U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Private partnerships invested in public equity or debt generally provide capital account balance and performance data quarterly, monthly or even mid-month which MKCAP reflects on its statement as it receives the data. Private partnerships invested in private debt, private equity, real estate or real estate debt is highly

illiquid with generally no public or private market. For these securities, MKCAP conducts an individualized review of each investment to establish its "fair value" on a quarterly basis. The process varies depending on the information available to MKCAP with regard to the investment. MKCAP gets input from the general partner and from management of the underlying investment, and reviews available financial information (including both past performance and management's projections for future performance, where available). In some cases, MKCAP has a third-party valuation that was obtained by management for other reasons, which MKCAP use as a guideline, rather than as a firm indication of value, as these usually presume an immediate sale and MKCAP views these as hold-to-maturity investments.

MKCAP may also provide advice about any type of investment held in a client's portfolio at the beginning of the advisory relationship.

Initial public offerings (IPOs) are available through MKCAP and the client's custodial broker/dealer.

### **Investment Strategies**

MKCAP implements a variety of investment strategies for clients, and does not manage a specific, single strategy for its clients. 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.

MKCAP's advice is primarily based on long-term investment strategies using asset allocation decisions and not market timing, however, MKCAP may implement short term trading strategies through TMPs or hedge fund managers. Individual securities are screened based on the basis of company financial strength, growth characteristics and overall ability to meet client objectives.

Investment strategies are driven by an understanding of client constraints, risk tolerance, familiarity with investment behavior, accredited investor status, and tax status.

### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Investments in, for example, derivatives, international companies, emerging markets or high yield debt can carry greater risks over other more conservative alternatives. Employing certain strategies in securities and derivatives may lead to losses that may exceed initial principle invested. Our investment approach constantly keeps the risk of loss and client risk profile in mind; however, clients should be aware that loss of principal may occur with no guarantee of investment objectives being met. Investors face the following investment risks or a combination thereof:

- **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.
- **Default or Credit Risk:** Default risk stems from a company's potential failure to pay its contractual obligations, such as a bond. In such occurrences equity and debt pricing as well as credit ratings may be impacted adversely affecting the potential return of an investment and/or loss of principle. Credit risk is calculated based on a company's overall ability to repay.
- **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. Lack of liquidity can lead to mispricing of a security or derivative, where changes in a securities value may not be reflected in the actual price of the derivative or underlying security.
- **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.
- **Leverage Risk:** Leverage is the use of borrowing to increase potential returns of an investment. One example is a mortgage on a home. The risk of using leverage in an investment strategy is the clients potential to lose more than the principle amount they originally invested.
- **Political Risk:** Often associated with investments in Emerging Markets or other international investments, political risk is the possibility that changes or instability in a government or country could have adverse affects on an investment leading to loss of principle.

## **Item 9: Disciplinary Information**

### **Legal and Disciplinary**

Registered investment advisers such as MKCAP are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of MKCAP or the integrity of

its management. MKCAP does not have any such legal or disciplinary events and thus has no information to disclose with respect to this Item.

There is, however, a pending FINRA arbitration matter in which Mr. Seid is named as an individual. In July 2012, Mr. Seid was named in a FINRA arbitration matter involving a former client of the previous owner of Martin Kelly Capital Management LLC ("Martin Kelly"). Mr. Seid has never met or talked to the claimant, nor serviced the client account nor was involved in any investment decisions involving the claimant. The claimant alleges several causes of action as a result of investments in the private fund area. As of today, Mr. Seid neither owns nor is associated with Martin Kelly in any respect.

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

### **Financial Industry Activities**

MKCAP has a relationship with Axxcess Capital, LLC. ("Axxcess"). Axxcess is a boutique investment bank specializing in alternative investments, offering private placement real estate offerings and programmatic joint venture opportunities to accredited investors. Mr. Seid, who is the owner of MKCAP, is a Managing Director of Axxcess. Mr. Tim Snodgrass, President, and Eli Spiro, CEO, of Axxcess sit on the Advisory Board of MKCAP, which meets on a quarterly basis to provide business and investment strategy advice to MKCAP. In addition, Messrs. Snodgrass and Spiro may from time to time act as solicitors and refer clients to MKCAP as set forth in Item 14 below.

Axxcess and William Candler own ARI Financial Services, Inc. ("ARI"), a registered broker-dealer with FINRA that services only institutional clients and does not conduct retail business. ARI provides transaction and placement services for institutional clients. ARI, as a broker-dealer, provides services to Axxcess. Kevin Manzo, an investment adviser representative of MKCAP is also a registered representative of ARI. Mr. Manzo does not place transactions through ARI on behalf of MKCAP clients; ARI provides regulatory and supervisory oversight of MKCAP. ARI approves and supervises all private securities transactions placed by MKCAP.

Jon Brackmann as an investment adviser representative of MKCAP and is also a registered representative of Mutual Securities, Inc., a broker-dealer registered with FINRA. Mr. Brackmann may conduct business through Mutual Securities, Inc. and may receive separate commissions or fees. Mr. Brackmann cannot trade securities for MKCAP clients through Mutual Securities. Mutual Securities, Inc. supervises the activities of Mr. Brackmann, but not the activities of MKCAP. Mr. Brackmann uses Mutual Securities, Inc. to accommodate clients with retail commission based products such as Variable Annuity, certain 529 Plans, or products purchased with previous brokers, who are interested in having Mr. Brackmann oversee these retail products. This accommodation is a business decision that was made to provide clients with this service if they request it.

Mr. Seid is also a 25% owner of Axxcess Healthcare Group, LLC, a firm specializing healthcare ventures, strategic advice, and investment banking. Services provided by Axxcess Healthcare Group, LLC include capital raising for hospital development, medical devices, biologics and various other healthcare business ventures.

These relationships may or may not present a conflict of interest and are disclosed to clients at the time of entering into an advisory agreement with MKCAP. Clients have the option to purchase any recommended investment products or services through other broker-dealers or agents.

Please review MKCAP's Form ADV Part 2B's for further disclosures.

### **Recommendations of Third-Party Managers ("TPMs") and Related Conflicts**

MKCAP may have arrangements with certain third-party managers whereby MKCAP receives a percentage of the fees charged by such managers. If MKCAP refers a client to a TPM where an MKCAP investment professional receives compensation based on a percentage of the fees charged by such TPM, that investment professional may be compensated for its services by receipt of a referral fee paid directly by the TPM to MKCAP in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and any corresponding state securities laws, rules, regulations, or requirements. Any such fee will be paid solely from the TPMs investment management fees and will not result in any additional charge to the client.

A conflict in interest exists as the sharing of fees creates a financial incentive to recommend that clients invest with a certain TPM that customarily allows MKCAP investment professionals to share in the investment management fees or to invest with TPMs with a higher percentage splits of fees to MKCAP investment professionals. Any such arrangements are disclosed to clients prior to investment and this conflict is managed by the supervision of all TPM recommendations on behalf of clients by the Firm's Investment Committee to ensure the recommendation is within the parameters set forth by the Investment Committee, the Firm's method of analysis and by MKCAP Code of Ethics and fiduciary responsibility to each client. MKCAP has never had this type of relationship with a TPM, and none are currently contemplated.

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

#### **Code of Ethics**

MKCAP has adopted a Code of Ethics ("Code") in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code establishes standards of conduct for MKCAP employees and includes general requirements that such employees comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information.

The Code expressly prohibits MKCAP associates from benefiting, either directly or indirectly, from recommendations made to or transactions placed by or on behalf of advisory accounts. It is our policy that no associated person may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, which thereby prevents such persons from benefiting from transactions placed on behalf of advisory accounts. In addition, any director, officer or employee of MKCAP may not buy or sell securities for their personal portfolio(s) where their decision is substantially derived from, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No person of MKCAP shall prefer his or her own interest to that of the advisory client.

Clients may request a copy of the Code by contacting MKCAP at (858) 217-5347.

## Participation or Interest in Client Transactions

MKCAP 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 may indirectly benefit from market activity generated by a security held in a client account. In accordance with the MKCAP Code of Ethics, MKCAP monitors the personal trading activity of all employees and prevents front running through various internal controls.

The Chief Compliance Officer ("CCO") of MKCAP reviews all employee trades each quarter. The personal trading reviews ensure that the client interests are always placed before any personal interests. Since most employee trades typically involve small mutual fund or exchange-traded fund trades, such transactions generally do not affect the securities markets.

## Item 12: Brokerage Practices

### Selecting Brokerage Firms

When performing investment management services, MKCAP generally places all transactions through the Schwab Institutional division of Charles Schwab & Co., Inc. ("CSI"), and/or another broker-dealer custodian. MKCAP periodically evaluates the commissions charged and the services provided by the custodian and compare those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative custodians. Other factors MKCAP may consider when evaluating its choice of custodians include:

- Ability to trade mutual funds and other investments that MKCAP determines are suitable a client portfolios;
- The custodial relationship between the client and the broker-dealer;
- Quality of customer service and interaction with MKCAP;
- Discount transaction rates; and
- Reliability and financial stability.

Specific custodian recommendations are made to clients based on their need for such services. MKCAP may recommend clients establish brokerage and custodial accounts with CSI, Deutsche Bank, Millennium Trust, and/or First Mercantile Trust to maintain custody of client's assets and to effect trades for their accounts. CSI provides MKCAP with the access to its institutional trading and operations services, which are typically not available to Schwab retail investors. These services generally are furnished to independent investment advisers at no charge to them so long as a total of at least \$10 million of the advisers' clients' account assets are maintained at CSI. The choice between these brokers is ultimately the client's and MKCAP will not require or only recommend a client to open an account with CSI for the purpose of obtaining these services.

Certain clients, if approved by MKCAP, may be permitted to open brokerage accounts with brokers other than CSI or Fidelity for the purposes of trading fixed-income investments, alternative investments and structured products. In these circumstances, MKCAP will recommend those brokers it believes are in the client's best interests to use and shall consider factors such as best execution, commission rates, the financial stability and reputation of the broker, the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, record keeping and other services provided by such broker, when making its recommendations. The choice of such broker is ultimately the client's. Clients should be aware that

MKCAP may not be able to negotiate specific brokerage commission rates with a broker-dealer on the client's behalf, or seek best execution services or prices from other broker-dealers. As a result, the client may pay higher commissions and/or receive less favorable net prices on transactions for their account than might otherwise be the case and MKCAP will have limited ability to ensure that the broker-dealer selected by the client will provide best possible execution.

### **Best Execution**

To ensure that the brokerage firms recommended by MKCAP are conducting overall best qualitative execution, MKCAP reviews the execution of trades at each custodian each quarter. Trading fees charged by the custodians are also reviewed on a quarterly basis. MKCAP's evaluation will consider the full range of brokerage services offered by the brokers, which may include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability. MKCAP does not receive any portion of the trading fees.

### **Research and Other Soft Dollars Benefits**

MKCAP may select a broker-dealer in recognition of the value of various services or products, beyond transaction execution, that such broker-dealer provides where, considering all relevant factors, it believes the broker-dealer can provide best execution. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with "soft dollars." The amount of compensation paid to such broker-dealer may be higher than what another, equally capable broker-dealer might charge. Except for the benefits received from CSI, MKCAP currently has no other soft dollar arrangement in place. The following discussion is intended to provide clients with certain important information regarding such practices, including the potential conflicts of interest that may arise should MKCAP enter into any soft dollar arrangement.

The custodial services include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. CSI, Fidelity, Deutsche Bank, and Millennium Trust also make available to MKCAP other products and services that benefit MKCAP but may not benefit its clients' accounts. Some of these other products and services assist MKCAP in managing and administering clients' accounts (e.g., software, other technology, and client account data such as trade confirmations and account statements), facilitate trade execution, provide research, pricing, information and other market data, facilitate payment of MKCAP's fees from its client accounts, and assist with back office support, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of MKCAP's accounts. Consequently, MKCAP may have an incentive to select or recommend these broker dealers based on its interests in receiving the research and other services rather than on its clients interests in receiving most favorable execution.

The receipt of such services may benefit MKCAP, because MKCAP does not have to produce or pay for the research or other products or services when it obtains such products and services by using client commissions. Although customary, these arrangements present potential conflicts of interest in allocating securities transactional business to broker-dealers in exchange for soft dollar benefits, including an incentive to select or recommend a broker-dealer based on MKCAP's interest in receiving the research or other



products or services, rather than on clients' interest in receiving most favorable execution. Additionally, MKCAP may have an incentive to effect more transactions than might otherwise be the case in order to obtain those benefits. The agreements between MKCAP and its clients generally authorize MKCAP to use client soft dollars for a wide range of purposes. The extent of any such conflict depends in large part on the nature and uses of the services and products acquired with soft dollars.

MKCAP's policy is to comply with the provisions of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)") when entering into soft dollar arrangements. Section 28(e) recognizes the potential conflict of interest involved in this activity, but generally allows investment advisers to use client commissions to pay for certain research and brokerage products and services under certain circumstances without breaching their fiduciary duties to clients. For these purposes, "research" means services or products used to provide lawful and appropriate assistance to MKCAP in making investment decisions for its clients. "Brokerage" services and products are those used to effect securities transactions for MKCAP's clients or to assist in effecting those transactions.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research and brokerage products and services which assist MKCAP in its investment decision-making process. MKCAP may cause clients to pay commissions that are higher than those that another qualified broker-dealer might charge to effect the same transaction where MKCAP determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received.

Research and other products and services purchased with soft dollars will generally be used to service all of MKCAP's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio, as permitted by Section 28(e). In other words, there may be certain client accounts that benefit from the research services, which did not make the payment of commissions to the broker-dealer providing the services.

Research and related services furnished by brokers may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; recommendations as to specific securities; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; and discussions with research personnel, along with hardware, software, data bases and other technical and telecommunication services and equipment utilized in the investment management process. Research received by MKCAP under such soft dollar arrangements may include both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.

MKCAP participates in CSI, Deutsche Bank, Millennium Trust's institutional customer programs and may recommend CSI, Deutsche Bank, Fidelity, Millennium Trust to clients for custody and brokerage services. There is no direct link between MKCAP participation in the program and the investment advice it gives to its clients, although MKCAP may receive economic benefits through its participation in the program. These benefits include, among other things, the following products and services which MKCAP receives 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 service adviser participants; access to block trading (which

provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client); 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 transactions fees and to certain institutional money managers; and discounts on marketing, technology and practice management products or services provided to MKCAP by third-party vendors. CSI, Deutsche Bank, Fidelity, Millennium Trust also may pay for business consulting and professional services received by MKCAP or its employees. Some of the products and services made available by CSI, Deutsche Bank, Millennium Trust through the program may benefit MKCAP but may not benefit its client accounts. These products or services may assist MKCAP in managing and administering client accounts, including accounts not maintained at CSI, Deutsche Bank, Fidelity, Millennium Trust. Other services made available by CSI, Deutsche Bank, Millennium Trust are intended to help MKCAP manage and further develop its business enterprise. The benefits received by MKCAP or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to CSI, Deutsche Bank, Fidelity, Millennium Trust. As part of its fiduciary duties to clients, MKCAP endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by MKCAP in and of itself creates a potential conflict of interest and may indirectly influence MKCAP choice of Charles Schwab, Deutsche Bank, Millennium Trust for custody and brokerage services.

In the event MKCAP receives a software maintenance credit from any of the client custodians MKCAP will use this credit to help offset a portion of the annual maintenance fee for our portfolio management software. All clients benefit from this credit as it reduces the firm's overall expenses. MKCAP's selection of client custodians is not affected by this nominal credit.

#### **Order Aggregation**

When possible, CSI, or other brokers used by clients, may bunch orders of various clients for execution, which generally results in lower commission rates being attained. MKCAP periodically reviews the trade reports provided by such brokers to ensure that no client is favored over any other.

MKCAP seeks to allocate transactions and opportunities among the various accounts it manages in a manner it believes to be as equitable as possible. When doing so, MKCAP considers each account's objectives, limitations and capital available for investment.

#### **Prime Brokerage, Custody, Clearing and Settling - Partnerships**

MKCAP has a prime brokerage arrangement with the following registered broker-dealers (the "Prime Broker"): Stone and Youngberg, JP Morgan and Deutsche. Under this arrangement, the Prime Broker, among other things: (i) arranges for the receipt and delivery of securities bought, sold, borrowed and lent; (ii) makes and receives payments for securities; (iii) maintains custody of cash and securities; (iv) tenders securities in connection with tender offers, exchange offers, mergers or other corporate reorganizations; and (v) provides detailed portfolio and related reports. MKCAP may cause clientele to pay for custodial and related services either in cash or by allocating a portion of its business to the Prime Broker.

## **Item 13: Review of Accounts**

### **Periodic Reviews**

Investment advisory accounts are reviewed by the principal normally on at least a quarterly basis while the individual assets recommended and used in the portfolio allocations are reviewed on at least a monthly basis by the adviser. Periodic investment committee meetings discuss the following: general conditions in the U.S. and foreign economics, stock and bond markets, and specific stock and bond analysis generated from both internal and external sources.

All accounts are reviewed by their designated adviser. There are no set minimum or maximum number of accounts reviewed by an advisor and compliance with stated client objectives is reviewed by the Chief Investment Officer and/ or the Chief Compliance Officer no less than on a quarterly basis.

The review of accounts includes suitability of investments, asset allocation in relation to risk level, changes in clients' goals or circumstances, market direction, economic factors, performance of securities, and/or political and world events.

### **Review Triggers**

A variation in an investors' own life situation or psychology may trigger a review of accounts. In addition, changes in monetary and fiscal policy, inflation, supply and demand, geo-political and social factors are monitored continuously. Factors Triggering reviews and perhaps triggering investment changes include: changes in regulatory or tax conditions, changes in the general condition of the economy, changes in currency, stock or bond markets and changes in any type of investment vehicle or individual security, owned by clients.

### **Regular Reports**

Account reviewers are members of the firm's Investment Committee. They are instructed to consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

Monthly account statements are prepared by the custodian and are mailed directly to each client. Additionally, each client receives a transaction confirmation whenever an investment is bought or sold. Quarterly reports are provided by MKCAP upon request. The adviser will furnish to any client upon request or at scheduled meetings with the client, a report detailing performance, asset allocation, and asset holdings. Reports detailing year to date gain/losses and transactions are also available upon request.

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

### **Compensation for Client Referrals**

If a client is introduced to MKCAP by an affiliated solicitor, MKCAP may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee shall be paid solely from MKCAP's advisory fee, and shall not result in any additional charge to the client. If the client is introduced to MKCAP by a solicitor, the solicitor shall provide the client with a copy of MKCAP's Form ADV Part 2 or other written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. The solicitor is required to

obtain the client's signature acknowledging receipt of MKCAP's disclosure brochure and the solicitor's written disclosure statement. Since in some states, a solicitor is also required to be qualified and registered as an investment adviser representative, MKCAP has developed internal controls for ensuring registration as required.

#### **Affiliations**

MKCAP has arrangements that are material to its advisory business which includes Axxcess Capital/ARI, and Mutual Securities, other investment advisers, accounting firm, law firm, insurance company or agency, and other entities that create limited partnerships.

While MKCAP does not receive additional fees for referring clients to these arrangements MKCAP may receive typical and ordinary commissions related to securities or related transactions. Please refer to Item 10 for additional information.

#### **Other Compensation**

Please refer to Item 10 and 12, which describe MKCAP's other compensation arrangements.

#### **Item 15: Custody**

Pursuant to Rule 206(4)-2 of the Advisors Act MKCAP is deemed to have custody of client funds because it has the authority and ability to debit fees from clients' accounts. To mitigate and potential conflict of interest all MKCAP client account assets will be maintained with an independent qualified custodian.

MKCAP does not physical custody of client assets. The client always maintains asset control, and can choose to custody assets at a variety of third party firms, such as CSI, Fidelity, Deutsche Bank, Millennium Trust, or First Mercantile Trust, or can custody certain assets directly. MKCAP places trades for clients under a limited power of attorney that includes both full and limited discretion engagements.

#### **Account Statements**

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

#### **Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by MKCAP and call MKCAP with any questions.

#### **Net Worth Statements**

Clients may generate net worth statements and net worth graphs through our client relationship management system. Net worth statements contain approximations of bank account balances provided by the client, as well as the value of land and hard-to-price real estate. The net worth statements are used for long-term financial planning where the exact values of assets are not material to the financial planning tasks.

Please refer to Item 12 for additional important disclosure relating to MKCAP's practices and relationships with custodians.

## **Item 16: Investment Discretion**

### **Discretionary Authority for Trading**

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

MKCAP may also select the broker-dealers for trade execution at its discretion. In selecting a broker for any transaction or series of transactions, MKCAP may consider a number of factors, including, for example, net price, the financial stability and reputation of the broker, the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, record keeping and other services provided by such broker. MKCAP will negotiate the commission rate clients will pay. Clients may pay commissions or fees that are higher or lower than those that may be obtained from elsewhere for similar services. MKCAP does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

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

### **Limited Power of Attorney**

By signing MKCAP's discretionary advisory agreement, client authorizes MKCAP to exercise discretionary authority with respect to all investment transactions involving the client's account. Pursuant to such agreement, MKCAP is designated as the client's attorney-in-fact with discretionary authority to effect investment transactions in the client's account which authorizes MKCAP to give instructions to third parties in furtherance of such authority.

## **Item 17: Voting Client Securities**

### **Proxy Votes**

MKCAP will vote any and all proxies for any account on which it has proxy voting authority. Decisions about how to vote on a proxy will be made based on the best interests of an account. In general, MKCAP will vote in favor of routine proposals, such as those for the election of auditors, and against proposals that in any way restrict a shareholder's ability to realize the full potential value of their investment, such as anti-takeover measures and cumulative voting rights). Other proposals, such as officer and director stock plans, will be reviewed on a case-by-case basis. In the event that voting on a proposal may cause a conflict of interest, MKCAP will vote as described above unless doing so does not address the potential conflict. In this case, MKCAP will communicate the proxy information and intended vote to the client. MKCAP will vote these proxies as decided by the client unless client does not respond within a reasonable period of time, in which case MKCAP will vote as communicated to the client.

**Item 18: Financial Information**

**Financial Condition**

MKCAP does not have any financial impairment that will preclude the firm from meeting contractual and fiduciary obligations to clients and has not been the subject of a bankruptcy proceeding.

A balance sheet is not required to be provided because MKCAP does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.