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ADVISORY BUSINESS

Caves & Associates was founded in 1983. Preston Caves is the majority owner. Sandra Gafney has a minority interest. The firm has been at its current location since 1992. In addition to investment advisory services, Caves & Associates provides financial, estate, and retirement planning services, as described in the third of the following three subsections. We operate on a fee-only basis and will take no transaction related compensation (see the Section Fees and Compensation).

On-Going Portfolio Supervisory Services

Caves & Associates provides comprehensive investment management services, including investment supervision and investment consulting. Supervision normally refers to on-going monitoring, management, and reporting. In many instances, supervisory services are begun after a period of initial consulting services to establish or review investment objectives, policies, and asset allocation and to implement an initial or revised portfolio. Consulting also refers to subsequent, ad hoc special projects (see the subsection *Investment Consulting Services* below).

Supervisory services typically use a “manager of managers” approach implemented predominately via no-load open-end mutual funds selected and monitored by Caves & Associates (see explanations of open-end and closed-end funds in the Section Methods of Analysis, Investment Strategies, and Risk of Loss). In certain limited cases, individual Treasury securities and top rated municipal securities are also used.

On-going supervision, including periodic reviews of investments, returns, portfolio structure, and strategy, is recommended but is not required. The types of supervision and reporting can be unbundled to exclude one or more elements such as performance measurement or performance evaluation. Thus, clients may engage on-going portfolio supervision at varying service levels.

Clients who require the highest level of supervision and reporting receive what is termed the full service. Reporting is usually on a quarterly basis, and supervision includes: performance measurement over various holding periods, including current valuations and time-weighted rates of return for all asset categories in the portfolio; written and graphical performance evaluations for the portfolio as a whole based on comparison to numerous market indices; performance data for individual mutual funds and for comparable groups of mutual funds and/or market indices; and continuous monitoring of mutual funds in the portfolio for manager changes, lagging performance, and other key barometers. The full service usually includes quarterly reallocation and rebalancing of portfolio holdings. The full service is best suited for a fiduciary such as a retirement plan trustee or for the highly involved individual investor.

A typical lower level of supervisory service is monitoring of the continuing investment merits of the client's mutual funds and rebalancing the allocation of holdings to levels specified by policy statements on a semi-annual basis. This monitoring and rebalancing (MRB) service also includes a graph of key portfolio values. Clients can opt out of the graph to reduce their on-going fees. The absolute minimum investment supervisory service is mutual fund monitoring only.

Caves & Associates supervises client portfolios on both a discretionary and non-discretionary basis. As of December 31, 2012, assets continuously supervised on a discretionary basis were about \$139.2 million and approximately \$4.9 million on a non-discretionary basis. Another \$27.5 million was supervised on an ad hoc, non-continuous basis, and predominantly on a discretionary basis, as well.

The vast majority of clients chose the MRB service level for on-going supervision.

Investment Consulting Services

Caves & Associates provides investment consulting services in a number of situations: 1) as a prelude to the investment supervisory services described above, 2) as part of a comprehensive financial review for clients enlisting the firm's financial planning services (described in the next subsection), and 3) for clients not interested in on-going supervision but in need of a review of existing investments and/or overall strategy. Advice and analyses range from such limited work as analysis of a specific investment or calculation of historical portfolio return to full strategic consulting, which includes establishment of investment objectives, preparation of a written statement of investment policies, recommendation of a portfolio asset allocation strategy, and selection of specific investments to implement the policy and allocation strategy.

The portfolio design is customized for each client. Portfolio design reflects many situational factors. The major ones are client's risk tolerance, age and family circumstance, tax bracket and net worth, and time horizon. Client-specific portfolio policy statements usually stipulate minimums and maximums for certain asset classes, any disallowed asset classes and investments, any holdings that must be retained, and various other restrictions and guidance for Caves & Associates' on-going supervision.

Financial Planning Services

Caves & Associates furnishes advice to individuals on a wide range of personal financial planning issues. Services are customized to client needs. Clients may select specific areas for review or elect a complete review, which would include the following:

1. Objectives. Development and analysis of current and future objectives.
2. Current Situation and Identification of Strengths and Weaknesses. Includes current balance sheet, three-year tax and cash flow projection, if appropriate, and supporting schedules and tax models.
3. Retirement Planning. Outlines specific financial independence goals and provides recommendations. Projects needs for living expenses at retirement; estimates the sum of qualified retirement plan benefits, social security payments, and portfolio cash flows, and compares these with future needs to estimate future capital adequacy.

4. Education Funding Needs and Sources. Analysis of future expenses for private secondary schools, college, and post-graduate studies and calculation of funding approaches and sources.
5. Risk Management. Reviews the client's personal insurance coverage, including life insurance, disability insurance, and medical, auto, casualty, liability and homeowners risk coverages. Identifies gaps and overlap in these coverages.
6. Estate Planning. Analyzes current estate program and estate tax exposure and makes recommendations for improvement.
7. Employee Benefits. Summarizes existing employee benefits and recommends possible changes of usage for clients who are employees, and of employee and executive benefits for clients who are business owners.
8. Asset and Cash Flow Management. Synthesizes and coordinates recommendations in all other areas to achieve optimum client wealth accumulation, financial security, and lifestyle. Prioritizes actions and allocates scarce resources if necessary. Includes same investment advisory services as described above, when appropriate.
9. Special Analyses. Examples include charitable estate planning, business continuation for clients owning a closely held business, qualified plan design and vendor selection, financing alternatives, and business strategy.

FEES AND COMPENSATION

Caves & Associates is a fee-only firm; we do not accept commissions or any transaction related compensation.

On-Going Portfolio Supervisory Fees

Supervisory fees depend on frequency of performance reports, size of portfolio, scope of service and analysis, and number of assets and accounts. To say Caves & Associates fees are complicated is probably an understatement. Nonetheless, we believe the services and fee approach is highly beneficial to clients because it allows them to choose and pay for only services they need and want, and consequently, not pay for services they don't want. It is also beneficial for us because we generally receive higher compensation from clients who require extra services and/or have more complicated situations.

Fees for a high level of on-going supervisory services, namely the full reporting and supervision referred to above, are shown below. The full service typically includes asset valuation, performance measurement and evaluation, continuous mutual fund monitoring, and regular portfolio rebalancing. Fees shown below are for a quarterly review frequency; they assume all assets are in one account, data is available via electronic media, and Caves & Associates has full discretion. Please see the Section Investment Discretion for a definition. **Also, please note figures in the table below in the far left and right columns are in thousands.**

Portfolio Value (\$000's)	Annual Fee		Incremental Range	
	% of Value	Fee Amount	% of Value	Value (\$000's)
\$0	-0-	-0-	2.200%	\$0-\$250
\$250	2.200%	\$5,500	1.400%	\$250-\$500
\$500	1.800%	\$9,000	.800%	\$500-\$1,000
\$1,000	1.300%	\$13,000	.500%	\$1,000-\$2,500
\$2,500	0.820%	\$20,500	.300%	\$2,500-\$5,000
\$5,000	0.560%	\$28,000	.200%	\$5,000-\$10,000
\$10,000	0.380%	\$38,000	.100%	Over \$10,000

For example, the annual fee for a portfolio value of \$750,000 is \$11,000, which is the sum of \$9,000 and \$2,000, where \$9,000 is the charge for a portfolio size of \$500,000 (see the Annual Fee column above opposite \$500), and \$2,000 is .800% of \$250,000, and the latter is \$750,000 minus \$500,000 (see the Incremental Range column above opposite \$500 to spot the incremental rate of .800%).

Fees for the full service are reduced approximately 30-40% if the review frequency is semi-annual and 60-70% if the review frequency is annual. The reductions depend upon the size and complexity of the portfolio. The minimum annual fee for full service supervision is \$5,500.

Additional charges apply if the portfolio is in more than one account or if the portfolio is subject to more than one allocation strategy. The additional flat fees for extra accounts range from \$500-\$1,000 per year per account. These fees are waived for additional accounts having a low account value. The additional fees for extra strategies are based on the fees shown below for the lower level of supervisory service called MRB. Additional charges at hourly rates also apply for investment recommendations for contributions, interim asset allocations and return calculations, instructions to rebalance non-monitored accounts, and when account data is not available via electronic media. Fees do not cover review meetings or phone conferences to review results or discuss strategy, which are also billed at normal hourly rates.

Fees for full service supervision are payable quarterly in arrears using the portfolio value at the end of the previous quarter or other review period. Specifically, they are computed and payable about one month into the quarter when previous values are known, and review and analysis have been completed. Fees are one-fourth of the appropriate annual fee based on portfolio value. Portfolio value is typically defined to exclude a) certain illiquid assets that are not susceptible to control and supervision, and b) cash reserves.

Fees for a lower level of supervisory service provided on a discretionary basis are shown below; services include only continuous mutual fund monitoring, regular (semi-annual) rebalancing, and a graph of key portfolio values. This service level is called interchangeably 1) the “All You Really Need” service, and 2) the monitoring and rebalancing service (MRB). **Please note that again figures in the table below in the far left and right columns are in thousands.**

Portfolio Value (\$000's)	Annual Fee		Incremental Range	
	% of Value	Fee Amount	% of Value	Value (\$000's)
\$0	-0-	-0-	1.000%	\$0-\$250
\$250	1.000%	\$2,500	.800%	\$250-\$500
\$500	0.900%	\$4,500	.500%	\$500-\$1,000
\$1,000	0.700%	\$7,000	.200%	\$1,000-\$2,500
\$2,500	0.400%	\$10,000	.150%	\$2,500-\$5,000
\$5,000	0.275%	\$13,750	.100%	\$5,000-\$10,000
\$10,000	0.188%	\$18,750	.050%	Over \$10,000

For example, the annual fee for a portfolio value of \$1,300,000 is \$7,600, which is the sum of \$7,000 and \$600, where \$7,000 is the charge for a portfolio size of \$1,000,000 (see Annual Fee column above opposite \$1,000) and \$600 is .200% of \$300,000 (see the Incremental Range column above opposite \$1,000 to spot the incremental rate of .200%).

Minimum annual fees for the MRB service are \$2,500. Annual fees increase if rebalancing is more frequent, such as quarterly, and decrease if rebalancing is less frequent, such as once per year. Additional charges apply for more than one account or more than one strategy. The additional charges are generally the same as described above for the full service. As above, fees do not cover review meetings or phone conferences, which are billed at normal hourly rates.

For both the full service and the lower level of service, flat fees of \$200 - \$800 per asset per year are added to those above to incorporate non-monitored assets in rebalancing calculations. Life and annuity cash values, the value of partnership interests, individual stocks, and proprietary funds in company retirement plans are examples of non-monitored assets.

As for the full service, additional charges apply if the portfolio is in more than one account. The additional flat fees for extra accounts for the MRB service range from \$300-\$650 per year per account. As above, these fees are waived for small accounts.

Fees for the MRB service are generally payable semi-annually in arrears using the portfolio value at the end of the six months or other review period. Specifically, they are computed and payable about one month after previous values are known, and review and analysis have been completed. Semi-annual fees are one-half of the appropriate annual fee based on portfolio value. Portfolio value is typically defined to exclude certain illiquid and/or hard-to-value assets that are not susceptible to control and supervision. The value of individual stocks is also excluded. Finally, the non-monitored assets noted above subject to flat fees for inclusion in the rebalancing analysis are excluded from percent of asset MRB fee calculations.

The minimal on-going service is monitoring only (i.e., mutual funds are continuously monitored and replaced, as necessary, but no other service is provided). Fees for this minimal service range from approximately 30-45% of the rates for the MRB service, depending on portfolio size. Minimum annual fees for the monitoring only service are \$1,000. The timing of invoicing is the same as for the MRB service.

Supervisory fees are negotiable above or below amounts indicated by the previous discussion depending primarily on the complexity of holdings and reporting formats.

Respecting all other services, which are charged at hourly rates, the minimum fee is \$680 for new clients. There is no minimum fee for existing clients.

Fees for non-discretionary accounts are 20% higher if Caves & Associates is responsible for client follow-up and placement of trade orders. The justification for higher non-discretionary fees is the additional time required for providing non-discretionary supervisory services. First, Caves & Associates must provide a fuller explanation for non-discretionary clients who need to decide whether to approve or disapprove Caves & Associates' recommendations. Second, Caves & Associates must establish and administer follow-up systems to ensure that trades Caves & Associates believes should be made in a client's portfolio are indeed executed in a timely manner. Third, it may be difficult and time-consuming to obtain the requisite approval from

client. The 20% higher fee for non-discretionary services is limited to a maximum additional charge of \$2,000 per year.

The fee for non-discretionary services is only 12.5% higher if client is responsible for placement of trade orders. Under these circumstances, Caves & Associates is relieved of the responsibility and time involved in follow-up but has an even higher responsibility to fully and clearly specify recommended actions so they can be accurately executed by client. The 12.5% higher fee in these circumstances is limited to a maximum of \$1,200 per year.

Caves & Associates may charge a set-up fee to defray the actual or reasonable costs of establishing analytical and reporting formats. The typical fee for the full service supervision is 20% of the expected annual fee. Client has the option of paying the set-up fee or committing to four quarters of supervisory services. The full service set-up fee is refundable in full if either the client or Caves & Associates terminates the investment supervisory services during the initial quarter of supervision. After the first quarter, the set-up fee is non-refundable.

The set-up fee for the MRB service is \$600-\$1,500, depending upon complexity of the portfolio and client's situation. The MRB set-up fee is normally billed as part of the first billing for rebalancing. Since such billing is in arrears, the MRB set-up fee itself is not typically paid in advance. If it is paid in advance, then, during the first four months, if client or Caves & Associates elects to terminate, said fee shall be fully refunded. After the first four months, the set-up fee is non-refundable.

Caves & Associates suggests clients direct the qualified custodian to deduct fees from client's account and remit payment to us on behalf of client. Client may elect to do so or may instead choose to make payment themselves. In either case, Caves & Associates provides client appropriate schedules and explanations of the fees charged.

Because portfolios are comprised of predominantly mutual funds, advisory clients pay their proportionate share of funds' management fees, administrative fees, and sales charges, in addition to Caves & Associates supervisory fees. Client also pays fees and expenses of the qualified custodian. If the custodian is Schwab, there are no per account fees. Schwab charges for certain administrative functions like wire transfers and for brokerage transactions within client accounts. We judge Schwab administrative charges to be usual and customary and generally at or below industry standards. See the Section Brokerage Practices for further information about choice of broker and cost.

Investment Consulting and Financial Planning Fees

Fees for investment consulting and financial planning are charged solely on an hourly basis. The hourly rate is \$220-\$340 for professional time and \$170 for staff support. Staff time is billed only when working on a client specific task of a research or analytic nature. Staff time is not billed for routine office tasks such as filing, nor indirectly on an allocated basis. As noted above, the minimum fee for hourly services for new clients is \$680. There is no minimum fee for existing clients.

An initial deposit is typically payable upon commencement of a consulting or financial planning assignment. The amount of initial deposit depends upon the expected scope of work and other circumstances. A typical deposit would be 5%-15% of the expected consulting charges. Bills are submitted to clients as planning progresses, upon reaching milestones, or quarterly, whichever is sooner.

Respecting investment consulting services, Caves & Associates fees are subject to an overriding maximum annual fee of 3% of portfolio value.

Miscellaneous Provisions and Disclosures

Fees are pro-rated in the event client terminates Caves & Associates' services during the quarter or other review period. Either party may terminate investment management, investment consulting, and financial planning services by giving thirty days notice. Caves & Associates will immediately cease work and refund any unearned deposit. Clients are responsible for any accrued fees above the initial deposit. The client may also cancel the service agreement without penalty within five business days of execution.

The agreement for investment consulting and financial planning services terminates upon Caves & Associates completing all work originally agreed upon. Completion is normally signified by presentation of written findings or by a formal presentation meeting. Caves & Associates Investment and Financial Planning Advisory Agreement contains a mandatory arbitration clause but does not waive any rights of action the client may have.

Clients using Caves & Associates for investment consulting and/or financial planning only do not receive regular reports from Caves & Associates nor are they advised if a change to their holdings is warranted by Caves & Associates' on-going mutual fund monitoring.

PERFORMANCE FEES AND SIDE-BY-SIDE MANAGEMENT

Caves & Associates does not charge performance fees or have a supervised person who manages an account which charges such fees. Therefore, we also do not engage in side-by-side management. Compensation is solely as described above.

TYPES OF CLIENTS

Caves & Associates provides investment advisory services for approximately 110 clients. About 70 clients have engaged on-going, continuous supervision, and the balance are on an ad hoc, non-continuous basis. The majority of clients are high net worth individuals. It is fairly common for them to have at least part of their portfolio held in a trust account registration (family trust, by-pass trust, charitable remainder trust, etc.). We also advise the children and other relatives of high net worth clients. We serve numerous pension/profit sharing plans and associated sponsoring corporations or businesses. Finally, we have less wealthy clients; usually they are well into their retirement years and have spent down their net worth considerably.

We do not have minimum account sizes. Nonetheless, for on-going supervision, we do have annual fee minimums and multiple account flat charges. These in effect translate into portfolio size minimums, and we will decline client engagements whenever we judge projected fees to be disproportionately high relative to portfolio value. See the Section Fees and Compensation and note that we consider 3% of assets to be the absolute maximum proportion. Also, we have an hourly fee minimum for new clients of \$680, which can produce a de facto account size minimum.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

Methods of Analysis and Investment Strategies

Caves & Associates utilizes a strategic asset allocation investment strategy. A long-term strategic allocation is chosen based on the client's objectives and risk tolerances and is largely adhered to diligently thereafter. Only limited variation around long-term targets is allowed after the portfolio is implemented. Our role is to:

1. Assist the client in establishing an investment policy comprised of long-term goals and investment restrictions reflecting client risk tolerance.
2. Assist the client in determining appropriate strategic allocation targets among various investment types.
3. Select and monitor the performance of specialty fund managers in each area.
4. Monitor movement of the actual asset allocation and, if necessary, reposition the portfolio, so market trends do not excessively cause the portfolio to be out of balance. Rebalancing is performed quarterly, semi-annually, or annually, depending on the service level selected by the client. Rebalancing is done subject to income tax considerations and may be done on an ad hoc basis in addition to regularly scheduled intervals if highly unusual economic or market conditions occur.

In a world where real risks must be incurred to achieve returns in excess of the risk-free rate (viz., the Treasury Bill rate), the best approach is to diversify broadly so that the magnitude of any short-term negative returns is minimized. Diversification is easily accomplished with a basket of mutual funds. The various holdings are selected to have low or even occasionally negative performance correlations with one another. Thus, when one holding does not perform well, there is a good chance some other holding has an offsetting strong performance. Most important, a broadly diversified portfolio stabilizes return without unduly sacrificing the magnitude of the long run return. Due to the mathematics of compounding, the reduced volatility of a stabilized return actually increases compound annual return. Finally, the mix of assets is chosen based on computer modeling so expected portfolio compound return and maximum loss are consistent with the client's goals and risk tolerance.

Active money management does not necessarily involve a profitable cost/benefit trade-off. Professional managers as a whole have not shown an ability to consistently avoid down markets, pick superior securities, etc. This strongly suggests that the market is very hard to beat and that the average active money manager does not add value. Accordingly, it is imperative to either pick superior managers and/or minimize money management fees and transaction costs. This minimization can be accomplished through the use of low cost, passively managed mutual funds (also known as index funds) and to a lesser degree by using low cost institutional actively managed funds as well as other judiciously selected funds.

- We diligently search for managers who produce above average returns at no increase in risk compared with peers. In the case of open-end mutual funds, we recommend only no-

load funds to eliminate up-front or deferred sales charges. We also employ one closed-end mutual fund which invests in emerging market stocks. The closed-end format insulates the manager from large cash inflows and outflows which could otherwise occur because of the historical volatility of this asset class. See below in this Section for further description.

- We build at least a portion of most portfolios using indexing. Accordingly, the total portfolio typically includes a small but not insignificant percentage of passive or index investments that have very low management fees. Considerable indexing is particularly favored for taxable portfolios due to the higher tax efficiency of index funds compared with most actively managed funds.

We use various sources to research and select mutual funds. We subscribe to several publications and mutual fund databases from Morningstar and use its website. We also use mutual fund information on the Schwab website for financial advisors. Both sources allow us to rank funds and evaluate returns on a risk-adjusted basis (see below in this Section for an explanation of this term). We also obtain information from newspapers, various business and advisory industry publications, and conference calls with managers and economists.

Mutual fund selection criteria include past performance versus comparable funds, expected future performance, manager tenure, expense ratio, purity of investment style, and organizational culture. We also evaluate investment process, fit with other funds we recommend, and whether management's actions are consistent with shareholder interest, including whether managers have a large personal investment in the funds they manage. Finally, we consider a strong risk management process to be a necessary element of a fund's management activities.

At times we recommend individual California general obligation and pre-refunded bonds and U.S. Treasury securities for a "laddered," long-term buy-and-hold strategy (use of individual securities eliminates management fees). We do not recommend individual equity securities and have no practical capability to professionally select and monitor them.

Because Caves & Associates recommends broad portfolio diversification, we may offer advice and analysis regarding such investments as cable television, equipment leasing, venture capital, leveraged buy-outs, and other types of private equity; hedge funds; research and development; and partnership units purchased on the secondary market. We also offer advice and recommend investments in guaranteed investment contracts and unit investment trusts.

Due to illiquidity and generally high costs of real estate limited partnerships (RELP's), Caves & Associates prefers that clients make their own direct investments into real estate in order to increase control and also reduce costs. Illiquid investments such as RELP's and other private partnership investments such as hedge funds have an inherently higher risk and must have a correspondingly higher expected return to be included in a portfolio. Nonetheless, illiquid investments may be judged appropriate if the deal terms and prospects are sufficiently favorable to the investor.

Caves & Associates analyzes and recommends liquid alternatives to RELP's such as mutual funds investing in publicly traded real estate investment trusts (REIT's), energy and commodity stocks, and other inflation-sensitive securities. These are utilized for many clients as inflation-hedged holdings when they have not invested via direct real estate ownership.

Strategic asset allocation with broad diversification provides effective risk management in the long-run but is only successful and applicable to client money having a similar long-term time horizon. Unfunded funds needs within five years must be met by setting aside cash reserves. Reserves cover 1) general and emergency needs, 2) unusually large expenditures over the next 1-2 years, or as far into the future up to five years as foreseeable, and 3) any on-going excess of routine expenditures over regular income streams. The various types of reserves are consistent with the underlying rationale for all cash reserves, which is to have ready cash available to avoid forced portfolio liquidations at cyclical market lows, bearing in mind that such lows are unpredictable.

Cash balances are invested in a combination of money market funds, Treasury bills or bonds, and short-term investment grade bond funds.

Risk of Loss

Notwithstanding the use of reserves, broad diversification, what we believe is well-informed portfolio design, and considerable active professional management through multiple positions in well-regarded mutual funds, the portfolios of Caves & Associates clients are subject to considerable risk. This risk includes that normally described as volatility of portfolio value as well as risk of absolute loss. As we always say, there is no absolutely risk-free investment.

Volatility and risk of loss are a function of various risks generally associated with investing in U.S. and foreign stocks and bonds. They are also a function of the specific investment approach of Caves & Associates. We'll address the former first. Then, we'll move to the latter. As the narrative proceeds, we discuss mitigating factors respecting both.

The risk of the Caves & Associates approach involves all the "typical" risks associated with investing in bonds and stocks, even though these types of securities are almost exclusively held via mutual funds. A primer on these risks is found immediately below, and we strongly urge clients to review prospectuses of our recommended mutual funds for a fuller exposition.

The bond funds involve the five main risks of being a creditor:

1. Interest rate risk (the increase or decrease of values caused by the ups and downs of the overall level of interest rates).
2. Credit risk (the loss of principle caused by default, or failure to pay, by the borrower), and the related credit rating risk (change of values caused by improvement or degradation of a bond's credit rating).

3. Term structure risk (change in relative values of short- versus long-term bonds based on changes in the shape of the relevant yield curve, which is a graph of yield on the vertical axis and length of bond maturity on the horizontal axis).
4. Risk of a change of yield premiums versus risk-free investments; yield premiums are usually represented by the difference in yield versus U.S. Treasury bills and bonds (a decrease in investor preference for non-risk-free bonds causes an increase in yield premium and a corresponding decrease in the price of a bond, and vice-versa).
5. Marketability and liquidity risk (whether there is an available market and whether transactions are plentiful and transparent, to facilitate fair pricing).

Stock funds involve the two main risks of being an owner of a business:

1. Business risk

Business risk in turn involves a whole series of factors pertaining to a company's ability to make a profit. They include but are not limited to negative industry trends; competitor actions; labor unrest; government regulatory decisions; loss of key management personnel; product obsolescence and technological change; acts of nature; inability to obtain favorable financing; and negative general business conditions nationally and internationally.

2. Market risk

Market risk involves the myriad factors affecting price levels of equity securities on public stock exchanges. These include but are not limited to overall investor psychology (namely changing willingness to accept stock market risk in the form of a risk premium over the expected return of risk-free investments); near-term and longer term projections about the future profitability of a particular company, industry, and the overall economy; current and projected levels of interest rates; government tax policies relating to dividend and capital gain income; and the impact of globalization, investor evaluations of global business cycles, and current government monetary and fiscal policy initiatives here and abroad.

Both stocks and bonds are subject to geopolitical risk, especially stocks. Additionally, like bonds, stocks are subject to marketability and liquidity risk.

Caves & Associates clients are almost exclusively U.S. dollar investors. Considering that client portfolios are internationally diversified as to both stocks and bonds, they are subject to foreign currency risk, namely that foreign investments may be worth less when translated back into U.S. dollars.

Foreign stock and bond investments are also subject to additional risks compared to U.S. investments. These risks include but are not limited to generally higher risks associated with less developed economic infrastructure, legal systems, securities exchange regulatory systems, and anti-fraud enforcement; differing financial reporting and accounting standards; sometimes autocratic political systems, cultures of corruption, and threat of nationalization of local and

foreign business interest; and higher potential for civil and labor unrest.

Caves & Associates builds portfolios using limited but material exposure through positions in open-end alternative strategy mutual funds. To implement these strategies, these funds employ hedging and arbitrage strategies which are intended to decrease risk and smooth investment results. Nonetheless, these strategies utilize long and short positions and derivatives such as options and futures contracts that can increase the risk of investment loss and transaction costs. A long position is a bet that the price of a security will increase in value. A short position is a bet that the price of a security will decrease in value. Short positions involve selling borrowed shares and can produce unlimited losses if the security price increases. Options inherently create leverage, increasing the magnitude of gain or loss. Future contracts involve counter-party risk, meaning the party on the other side of the contract may default on their obligation. It should be noted that the alternative strategy funds used by Caves & Associates have a history of reducing volatility and producing good risk-adjusted returns. Nonetheless, such desirable results are dependent upon the continuing skill of the managers' execution of these sophisticated and by no means infallible strategies.

Some funds employed by Caves & Associates are not per se alternative strategy funds; they are considered traditional long-only funds. Nonetheless, they do employ options and derivatives for special purposes. For example, certain bond funds employ derivatives to change such characteristics as average maturity and credit rating and thereby manage interest rate and credit risk (please see the risk discussions above in this section) without having to trade their underlying bond holdings. Likewise, certain stock funds use options and other similar long positions to provide short-term market exposure needed when spikes in shareholder investment occur. The funds eliminate these derivative positions gradually concurrent with systematically and economically putting the surge in cash from investors to work in the typical longer-term stock investments appropriate to the fund's strategy and management style. We believe these types of uses of derivatives do not materially increase investor risk, are generally standard industry practice, and are beneficial for smooth fund functioning and maximization of investment performance.

Now we turn to risks specific to the investment approach of Caves & Associates. The three main risks are 1) those generally attendant with mutual fund investing, in other words, due to the nature of mutual funds, 2) the impact of the dual layer of fees, and 3) the degree of success of our management process, which primarily depends on proper assessment of clients' risk tolerance and our selection of "winning" funds, superior combinations of funds in portfolios, and value added rebalancing strategies.

Caves & Associates portfolios employ predominately actively managed open-end mutual funds. For all their advantages, namely diversification, professional management, high degree of visibility and comparability, and SEC regulation, even well-selected mutual funds have certain disadvantages. Compared with portfolios built with individual securities, open-end mutual funds entail less control of events that trigger income tax consequences. Mutual funds owners must report on their tax return whatever capital gains or losses occurred within the fund for the year, and the fund manager is certainly not tailoring gain or loss recognition for any specific owner of the fund. Caves & Associates seeks to mitigate this lack of control by our selection of mutual

funds that have a history of managing tax consequences of trades with due consideration of the interests of shareholders. We also emphasize selection of funds whose managers have major personal positions in the funds they manage. This tends to align the interests of managers with those of shareholders.

Another potential disadvantage of open-end mutual funds is that, at times, the actions of other shareholders may have negative consequences for our clients. For open-end funds, all shareholder transactions are with the fund itself: buyers purchase newly issued shares from the fund, and seller's shares must be redeemed by the fund buying back the shares using the fund's cash. Though fairly infrequent, if an unusually high percentage of shareholders redeem/sell shares concurrently, like in times of market distress, fund managers may need to sell positions at inopportune times to raise cash to meet redemptions, hurting remaining shareholders and also tending to increase realized capital gain distributions. Managers are in this cash bind in particular if they have major positions in traditionally less liquid security types or in positions that are traditionally liquid but become significantly less liquid in times of market distress, such as occurred for most U.S. and foreign bonds not issued by the U.S. Treasury in 2008. Small capitalization stocks and low quality bonds are especially subject to this risk. We mitigate this risk by a preference for funds investing in highly liquid positions. We also use a closed-end fund for exposure to emerging markets stocks, which can be quite illiquid when out of favor. Closed-end funds are so named because their shares outstanding generally is fixed. Selling shareholders are not redeemed by the fund; instead, sellers use a stock exchange to cash out by selling to a third party buyer. Thus, by their nature, closed-end funds are not subject to redemption risk. Finally, funds with high positions in illiquid asset types constitute a small allocation of our client portfolios.

It is important for the reader to note that it is the responsibility of mutual fund managers to manage risk and use techniques to mitigate the inherent disadvantages of open-end mutual funds. Further, they are uniquely qualified as professionals and specialists in the particular investment asset class held by their fund to address and mitigate the bond and stock risks described in the primer at the beginning of this subsection on risk of loss. As noted previously, funds' management of risk is a key element of our selection process, and we insist that managers are taking their risk management responsibility very seriously.

As noted above, the second main risk of Caves & Associates' investment approach using mutual funds is they create a dual level of fees. Namely, our clients pay our investment supervisory fees and also pay the management fees and expenses at the mutual fund level. The risk is that summing two levels of fees could create a cost hurdle for investors that is overly detrimental to returns.

We endeavor to mitigate this risk in two main ways. First, we place a significant emphasis on low cost when selecting funds. Also, considerable use of low cost index funds and institutional share classes of actively managed funds helps keep down costs at the fund level. Second, we seek to minimize costs at the Caves & Associates level in several ways. We have unbundled services so clients can control the level of our fees by selecting a lower service level. We also offer the MRB, or "All You Really Need" service, which is available at what we believe are significantly lower costs than other advisory firms using a manager of managers approach.

Finally, clients may choose hourly consulting only and do not have to engage on-going supervision on a contractual basis.

We also argue that the dual level of fees is justified by the specialized analytical power and broad resources that are brought to bear by a manager of managers approach. These include the policy setting and asset allocation expertise of Caves & Associates and the on-going client support, liaison, and long-term perspective we provide. They extend to expert research and day-to-day market coverage at the mutual fund level. In particular, we build a broadly diversified portfolio that typically includes upwards of 50 asset classes and management styles that nonetheless also employs specialist managers in each asset class and style (we call this fund “cherry picking”). Our approach also facilitates portfolio rebalancing and replacing a manager at minimal transaction costs compared with the wholesale selling of individual security investing. Broad diversification also increases risk-adjusted returns (risk-adjusted returns means that returns are evaluated not solely on an absolute basis but also considering the level of volatility incurred over various time periods compared with return; for example, a moderate return at low volatility could be preferred over a high return accompanied by high volatility). Last but certainly not least, broad diversification tends to dampen volatility at the total portfolio level, which helps our clients stay disciplined at the most fear-producing times of the stock market cycle.

The third main risk of the Caves & Associates approach is whether we can appropriately advise clients and successfully implement a broadly diversified investment approach. Such an approach requires a high knowledge base to cover the numerous economic and investment issues of global stock and bond investing, use of alternative strategies, and appropriate timing and execution of rebalancing. We believe we have requisite knowledge, experience, and qualifications to properly advise clients initially, supervise their portfolios on an on-going basis, and address their estate, retirement, and financial planning issues, as needed. Our success is aided by our use of an investment process patterned after the professional, highly regarded institutional model, which allows us to help clients arrive at suitable investment policies, customized for their needs, documented in writing, and implemented with specialist managers having publically documented track records. See the Brochure Supplement for professional vitae and also our website.

DISCIPLINARY INFORMATION

No legal or disciplinary event respecting the integrity of Caves & Associates or its management and business practices has ever occurred.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither Caves & Associates nor any related person is a general partner in an investment-related limited partnership or manager of an investment-related limited liability company, and does not advise any other “private fund” as defined under SEC rule 203(b)(3)-1.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING

Caves & Associates adopts and abides by the *Code of Ethics and Professional Responsibility* and the *Standards of Professional Conduct* of the Certified Financial Planner Board of Standards and the *Code of Ethics, Standards of Professional Conduct, and Bylaws* of the Association for Investment Management and Research. Caves & Associates also complies with the ethical considerations enunciated by its Mission Statement and Company Values. A copy of Caves & Associates' Code of Ethics is available upon request.

Client is under no obligation to take action as recommended by Caves & Associates, Preston Caves, or Sandra Gafney. Using our fee-only compensation approach, we endeavor to eliminate any conflict of interest relative to clients' financial matters (see the Section Brokerage Practices). Nonetheless, in various situations we could have a bias toward moving client assets into mutual funds under our supervision to increase assets subject to percent fees and thereby increase our fees. The bias would be applicable when a client is considering moving money from a non-monitored asset like a bank certificate of deposit. It would also be applicable when a client is considering transferring from a company qualified retirement plan like a 401(k) to an IRA because our applicable flat fees for the 401(k) are typically significantly lower as a percent of assets than for mutual funds in an IRA (refer to the Section Fees and Compensation). We believe this conflict is mitigated primarily by the obligation of our Code of Ethics to act as a fiduciary, wherein we must always put the interests of the client above our own. Additionally, the percents of our supervisory fee schedules decline considerably as client portfolio value increases. Accordingly, it is likely that asset transfers into mutual funds would result in fairly modest fee increases in dollar terms, thus mitigating to some degree our potential bias in favor of transfer.

At times the interests of Preston Caves' own accounts may correspond with the interests of a few or many clients, and in that circumstance he may do himself what he suggests they do. The same may also be said regarding Sandra Gafney. The correspondence of interest is purely coincidental and includes almost exclusively open-end mutual funds. In any event, they are both too small an advisor and investor to noticeably affect the market. Associates of Caves & Associates maintain personal transaction records. The firm does not permit insider trading and strictly enforces the rules and regulations of the Investment Advisors Act of 1940.

BROKERAGE PRACTICES

Caves & Associates is not a brokerage firm, does not represent a brokerage firm, and we have no affiliations with a brokerage firm. Therefore, our role is to assist clients in establishing an appropriate business relationship with a third party broker or brokers to implement our recommendations and investment management.

The Custodians and Brokers We Use

Caves & Associates does not maintain custody of your assets on which we advise, although we may be deemed to have custody of your assets if you give us authority to withdraw assets (specifically, our advisory fees) from your account (see the Section Custody below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend and request that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to (but only on your instruction if you do not give us discretion). Schwab has scheduled, discounted commission rates which are payable for many mutual fund transactions. Caves & Associates receives no share of such Schwab commissions or any form of direct compensation from Schwab for dealings of Caves & Associates’ clients with Schwab. However, see the subsection *Our Interest in Schwab’s Services* below in this Section. Caves & Associates’ clients authorize Schwab to send duplicate confirmations and statements to Caves & Associates. If services are on a discretionary basis, they also authorize Caves & Associates to give instructions to Schwab for securities transactions in client’s Schwab account on behalf of client (see the Section Investment Discretion).

While we recommend and request that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. If you do not wish to place your assets with Schwab, then it is possible our advisory fees will be higher due to the extra time involved. You may also pay higher brokerage/custodial fees and commissions than through Schwab.

Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below, but this is rarely the case.

We use Fidelity brokerage services for a few client accounts per client request. We also use Fidelity for one client 401(k) account due to better tax-related language in the plan document provided by Fidelity versus that provided by Schwab. Finally, we use TD Ameritrade for one client asset that Schwab is unwilling to custody.

How We Select Brokers/Custodians

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their

services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Availability of no transaction fee mutual funds for buys and sales of small amounts
- Access to lower cost institutional shares of mutual funds priced at significantly lower than typical institutional purchase minimums.
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see the subsection *Products and Services Available to Us from Schwab* below in this same Section).

Your Brokerage and Custody Costs

For our clients' accounts that Schwab maintains, Schwab generally does not charge separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Caves & Associates receives no share of commissions or any form of direct compensation from clients' use of such custody and brokerage services.

One reason we request clients maintain their assets in accounts at Schwab is because the higher value of assets benefits our clients. The benefits result from our ability to negotiate lower commission rates than otherwise when client assets at Schwab increase. These negotiated charges apply to all clients of Caves & Associates and are usually significantly lower than charges incurred if clients used the Retail Division of Charles Schwab & Co., Inc. There are no limitations of Caves & Associates' authority to determine commission rates and mutual fund transaction charges paid through Schwab.

Schwab charges, as negotiated by Caves & Associates, are determined to be reasonable based on a number of factors. These include high scores on selection criteria enumerated in the previous subsection. They also include the quality and availability of client and advisor services over the worldwide web, 24-hour 800 phone numbers, and through a multitude of "neighborhood" Schwab Retail Division local offices.

By far the predominant type of trade through Schwab for our clients is purchase or sale of open-end mutual funds. These funds are not traded on public securities exchanges. Rather, a trade settles at the net asset value per share of the fund as reported after the close of financial markets. Importantly, all buyers and sellers of any particular fund receive this same per share value for determining the total transaction amount. Thus, for open-end fund trades, the quality of Schwab's execution services during normal trading hours or after hours is not a factor from the perspective of Caves & Associates and its clients.

On the other hand, we occasionally trade one closed-end mutual fund for many clients. For a few clients, we occasionally sell individual stocks that have been inherited or otherwise acquired without our involvement. Additionally, we occasionally buy U.S. Treasuries and high quality municipal bonds on a hold-until-maturity basis. Finally, on a limited, occasional basis, we buy exchange-traded funds as well for a short holding period to gain market exposure. For these trades, the quality of Schwab's execution is important. We spot check Schwab's performance to satisfy our duty to seek "best execution" of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see the subsection *How We Select Brokers/Custodians* above).

Products and Services Available to Us From Schwab

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage, which includes trading, custody, reporting, and related services. Many institutional brokerage services we access through Schwab Advisor Services™ are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab's support services:

Services That Benefit You. Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

Services That May Not Directly Benefit You. Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In

addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

Services That Generally Benefit Only Us. Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

Our firm uses the three classifications of services just described in the preceding paragraphs to a significant degree. However, we generally do not use Schwab research and make only low to moderate use of the class of services that generally benefit only us.

Our Interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. As noted above, we don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. The \$10 million minimum may give us an incentive to recommend and request that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see the subsection *How We Select Brokers/Custodians* above) and not Schwab's services that benefit only us. We use Schwab for custody of almost all of our \$132.3 million in client assets under management. Therefore, we have a very substantial overage relative to the Schwab minimum, and we do not believe that our interest in our clients collectively maintaining at least \$10 million of their assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

REVIEW OF ACCOUNTS

Clients determine the level of on-going supervisory services required. This in turn determines the timing and nature of reviews. Levels include quarterly, semi-annual, annual, or ad hoc review and mutual fund monitoring only.

As part of the review process, clients who have engaged on-going, continuous supervision are contacted for updates regarding their personal situation and any changes that need to be incorporated in the review. Ad hoc updates typically require the same information.

Each of the mutual funds recommended by Caves & Associates is reviewed at least semi-annually for manager changes, performance, expenses, and other factors affecting the suitability of the fund. Ad hoc replacement of mutual funds may occur throughout the year. If clients engage us for mutual fund monitoring only, portfolios are reviewed only to the extent required to replace a fund.

Higher levels of supervision include quarterly, semi-annual, and annual reviews, which are scheduled and performed at the appropriate time interval. Ad hoc reviews are typically triggered by significant contributions to, or distributions from, a portfolio, marriage, divorce, birth of a child, change in employment status, retirement, or due to market fluctuations over a period of time. At times, an ad hoc review is the result of a client request, and many times it results from prompting by Caves & Associates.

Investment Supervisory Services

Reviews: Monitoring of mutual funds is continuous based on review of various financial publications and research services. Most accounts are valued and analyzed every six months to check compliance with the strategic allocation specified in investment policies. Some clients contract for periodic performance measurement and evaluation, and some undergo this full service semi-annually or annually rather than quarterly. Accounts are not reviewed at all if client elects not to engage on-going supervisory services.

Reviewer: Preston Caves and Sandra Gafney are the sole reviewers, assisted by quantitative information and draft rebalancing analyses and performance reports prepared by staff.

Financial Planning Services

Reviews: Not routinely scheduled. Clients are reminded in periodic mailings of the general need for review and the specific triggering factors such as change in personal economics or marital or health status. In such mailings, they are encouraged to take the initiative and request a review.

Reviewer: Preston Caves is the sole reviewer, assisted by quantitative information prepared by staff.

PAYMENT FOR CLIENT REFERRALS AND OTHER COMPENSATION

Neither Caves & Associates nor any related person makes any payment for client referrals. We do not receive any benefit, including sales awards or prizes, from a non-client for providing advisory services to clients.

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (see the Section Brokerage Practices above). The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

CUSTODY

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab to deduct our advisory fees directly from your account or if you grant us authority to move your money to another person's account. Schwab or other chosen broker maintains actual custody of your assets. You will receive account statements directly from Schwab or other chosen broker at least quarterly. They will be sent to the email or postal mailing address you provide. You should carefully review those statements promptly when you receive them. We do not provide "our own" account statements, and our MRB service asset allocations seldom uses month-end values and therefore do not provide values which are readily or practicably comparable to broker-provided statements. However, you may be able to sense check values displayed graphically on the graph of key portfolio values, and we encourage you to do so. Additionally, the full service described above in the Sections Advisory Business and Fees and Compensation includes an investment performance report that is readily comparable, and we urge you to compare values in Schwab's account statements to the beginning and end period values shown in performance reports you receive from us.

INVESTMENT DISCRETION

Caves & Associates provides advisory services on either a discretionary or non-discretionary basis. If our firm is granted discretion, we are not required to seek pre-approval by the client for mutual fund replacements or rebalancing of the portfolio. Non-discretionary means we are required to seek and obtain client pre-approval for portfolio changes. In either case, investments for accounts are determined in accordance with the client's written and agreed investment policies. Clients may specify in their investment policies that specific assets are to be retained in their portfolio notwithstanding their granting Caves & Associates discretion.

Changes for discretionary accounts are usually implemented immediately following a scheduled allocation review or our decision to replace a fund; however, discretionary clients may specify a short waiting period between the review and implementation in order for the client to review our planned changes.

Replacement of a specific mutual fund due to on-going mutual fund monitoring is implemented upon a timing determined by Caves & Associates for discretionary clients. Notification of monitoring changes and a brief rationale are typically transmitted to discretionary clients following implementation. Mutual fund replacement and rebalancing trades for non-discretionary clients are delayed until specific approval is obtained.

VOTING CLIENT SECURITIES

The company policy is to always vote proxies in the best interests of our clients. Caves & Associates is predisposed to vote against mutual fund management fee increases.

FINANCIAL INFORMATION

Caves & Associates and its owner, Preston Caves, do not have any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

Brochure Supplement

**Preston Caves
Professional Vitae**

**Caves & Associates, LLC
1334 Park View Avenue, Suite 100
Manhattan Beach, CA 90266
310-545-4179**

March 28, 2013

Firm Website is www.cavesassociates.net

This brochure supplement provides information about Preston Caves that supplements the Caves & Associates, LLC brochure. You should have received a copy of that brochure. Please contact Jeanne Oshiro, Office Manager, at Jeanne@cavesassociates.net if you did not receive Caves & Associates brochure or if you have any questions about the contents of this supplement.

Preston Caves

Educational Background and Business Experience

Year of Birth: 1947

Education: **Masters of Business Administration**
Stanford University Graduate School of Business, Palo Alto, California

Bachelor of Arts in Economics
Stanford University, Palo Alto, California

Business **Investment Management Consultant and Certified Financial Planner**
Experience: **Caves & Associates**
Manhattan Beach, California
1983 – Present

Professional **Certified Financial Planner (CFP)**
Designation: Please see the CFP Disclosure describing the qualifications required for the CFP designation. It is found in Appendix 1.

Chartered Financial Analyst (CFA)
Please see the CFA Disclosure describing the qualifications required for the CFA designation. It is found in Appendix 2.

Disciplinary Information

No legal or disciplinary event respecting the integrity or business practices of Preston Caves has ever occurred.

Other Business Activities

Preston Caves is not actively engaged in any other investment-related business or occupation.

Additional Compensation

Preston Caves does not receive additional compensation or economic benefit for providing advisory services from anyone who is not a client of Caves & Associates.

Additional information about Preston is available on the firm's website.

Brochure Supplement

**Sandra Gafney
Professional Vitae**

**Caves & Associates, LLC
1334 Park View Avenue, Suite 100
Manhattan Beach, CA 90266
310-545-4179**

March 28, 2013

Firm Website is www.cavesassociates.net

This brochure supplement provides information about Sandra Gafney that supplements the Caves & Associates, LLC brochure. You should have received a copy of that brochure. Please contact Jeanne Oshiro, Office Manager, at Jeanne@cavesassociates.net if you did not receive Caves & Associates brochure or if you have any questions about the contents of this supplement.

Sandra Gafney

Educational Background and Business Experience

Year of Birth: 1959

Education: **Masters of Business Administration**
Loyola Marymount University, Los Angeles, California

Bachelor of Science in Business Administration
University of Florida, Gainesville, Florida

Business Experience: **Financial Counselor and Analyst**
Caves & Associates
Manhattan Beach, California
December 2004 – Present

Portfolio Administrator and Office Manager
Harold Davidson & Associates
Century City, California
August 1998 – June 2001

Manager, Client Service and Marketing; Marketing Representative; Analyst
Prudential Asset Management Company (Prudential Investments)
California and New Jersey
May 1986 – June 1996

Professional Designation: **Certified Financial Planner (CFP)**
Please see the CFP Disclosure describing the qualifications required for the CFP designation. It is found in Appendix 1.

Disciplinary Information

No legal or disciplinary event respecting the integrity or business practices of Sandra Gafney has ever occurred.

Other Business Activities

Sandra Gafney is not actively engaged in any other investment-related business or occupation.

Additional Compensation

Sandra Gafney does not receive additional compensation or economic benefit for providing advisory services from anyone who is not a client of Caves & Associates.

Supervision

Preston Caves supervises and monitors the advice provided to clients by Sandra Gafney. Preston is the owner of Caves & Associates and can be reached at 310-545-4179.

Additional information about Sandra is available on the firm's website.

Brochure and Brochure Supplement of Caves & Associates, LLC

Appendix 1

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.

Brochure and Brochure Supplement of Caves & Associates, LLC

Appendix 2

The Chartered Financial Analyst (CFA) charter is a professional designation established in 1962 and awarded by CFA Institute. To earn the CFA charter, candidates must pass three sequential, six-hour examinations over two to four years. The three levels of the CFA Program test a wide range of investment topics, including ethical and professional standards, fixed-income analysis, alternative and derivative investments, and portfolio management and wealth planning. In addition, CFA charterholders must have at least four years of acceptable professional experience in the investment decision-making process and must commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.