

Form ADV Part 2A - Brochure



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This brochure provides information about the qualifications and business practices of Hanseatic Management Services Inc. If you have any questions about the contents of this brochure, please contact us at 505.828.2824 or info@hanseaticgroup.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 Hanseatic Management Services Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

2. MATERIAL CHANGES

There has been no material changes since the previous annual update of Hanseatic Management Services, Inc.'s Form ADV Part 2A filed on January 22, 2014.

Madrona Global Capital Management, LLC ("**Madrona**"), which was a related entity, has deregistered as an investment adviser and is no longer providing investment advisory services.

3. TABLE OF CONTENTS

Form ADV Part 2A - Brochure	1
2. MATERIAL CHANGES.....	2
3. TABLE OF CONTENTS	3
4. ADVISORY BUSINESS.....	4
5. FEES AND COMPENSATION	4
6. PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT	6
7. TYPES OF CLIENTS	6
8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS	6
9. DISCIPLINARY INFORMATION	7
10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	7
11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING	8
12. BROKERAGE PRACTICES	9
13. REVIEW OF ACCOUNTS	9
14. CLIENT REFERRALS AND OTHER COMPENSATION	10
15. CUSTODY.....	10
16. INVESTMENT DISCRETION	10
17. VOTING CLIENT SECURITIES	10
18. FINANCIAL INFORMATION	11
Form ADV Part 2B - Supplemental Brochure	12
BIOGRAPHIES	13

4. ADVISORY BUSINESS

Hanseatic Management Services, Inc. (“**HMSI**” or the “**Firm**”) was founded in August, 1995. The firm is owned by two employees (Russell T. Sanderson owns 51.32%; Brian R. Stangel owns 48.68%). HMSI offers both discretionary and non-discretionary investment advisory services using proprietary, mathematical stock screening analytics and a consistent investment process to actively manage diversified equity portfolios. (See Section 8, “Methods of Analysis, Investment Strategies, and Risk of Loss”)

HMSI offers the following domestic and international equity products: Large Cap Institutional Equity, Large Cap High Quality Equity, Mid Cap Equity, Growth & Income Equity, Latin America Equity, and Europe Equity.

HMSI tailors its services to the individual needs of its clients. It manages each portfolio in accordance with investment guidelines set by the client. Clients may impose restrictions on investing in certain securities or types of securities.

HMSI does not participate in wrap fee programs.

As of June 30, 2014 HMSI had \$193 million in assets under management. \$161 million were in discretionary accounts and \$32 million were in non-discretionary accounts.

5. FEES AND COMPENSATION

HMSI’s standard investment management fee schedule is listed in the table below. The actual fee schedule may be negotiated on a client-by-client basis and may differ from that below.

Accounts greater than \$1 million	Fee (BP’s)
Domestic Equity Products	75
International Equity Products	95

The management fee is payable quarterly, in arrears, at the beginning of each calendar quarter based on the market value of the assets in the account on the last day of each of the preceding three calendar months. Asset value means the total account net asset value as computed by the custodian including cash, accrued interest, taxes and accrued income from pending cash dividends, rights and warrants (“**Custodian NAV**”).

Example:

Period	Custodian NAV	Annual Rate	Calculation	Monthly Fee
Month 1	\$1,000,000.00	0.75%	$\$1,000,000.00 \times .0075/12$	\$625.00
Month 2	\$1,100,000.00	0.75%	$\$1,100,000.00 \times .0075/12$	\$687.50
Month 3	\$900,000.00	0.75%	$\$900,000.00 \times .0075/12$	\$562.50
Quarterly Total			Sum	\$1,875.00

Total Quarterly Management Fee Assessed = \$1,875.00

If a client contributes funds to or withdraws funds from the account on a date other than the first day of a month, the account is charged a pro-rated portion of the management fee for that calendar month with respect to such contribution or withdrawal based on the number of days the funds were in the account.

Example: Withdrawal of \$500,000 on 12/22/13

Period	Custodian NAV	Annual Rate	Calculation	Monthly Fee
10/31/13	\$1,000,000.00	0.75%	$\$1,000,000.00 \times .0075/12$	\$625.00
11/30/13	\$1,100,000.00	0.75%	$\$1,100,000.00 \times .0075/12$	\$687.50
12/21/13	\$1,200,000.00	0.75%	$\$1,200,000.00 \times .0075/12 \times 21/31$	\$508.06**
12/31/13	\$700,000.00	0.75%	$\$700,000.00 \times .0075/12 \times 10/31$	\$141.13**
			Sum of pro-rated monthly fee.	\$649.19**
Quarterly Total			Sum	\$1,961.69

**Pro-rated monthly amount.

Total Quarterly Management Fee Assessed = \$1,961.69

Payment of the management fee is made by one of two ways:

- i. The client gives prior authorization to the custodian that (a) authorizes HMSI to debit the account for the management fee up to a client-specified maximum amount, based on the account size and management fee to be charged, and (b) authorizes the custodian to pay HMSI directly no sooner than five (5) business days after the account statement is available at the custodian. The client is responsible for understanding and verifying the amount debited through the client's monthly custodian statement.
- ii. HMSI sends a quarterly invoice by email to the client and the client pays the fee directly to HMSI. The client authorizes payment as per item 1 or 2 above if payment has not been received by HMSI within fifteen (15) days of the later of the transmission of the invoice and the availability of the account statement.

HMSI's clients may also pay custodial fees, administrative expenses, and brokerage and other transaction costs. (See Section 12, "Brokerage Practices") HMSI does not

accept payment of fees in advance. Neither HMSI nor its employees accept any compensation for the sale of securities or other investment products.

6. PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

HMSI charges no performance-based fees on any of its accounts.

7. TYPES OF CLIENTS

HMSI provides investment advisory services primarily to institutional clients, including but not limited to, pension and profit sharing plans, and corporations. Some of these client relationships are established through an Investment Manager/Sub-Advisor contract, where HMSI is the Sub-Advisor. HMSI also provides investment advisory services to private clients.

HMSI's minimum account size is \$1,000,000; however, on a client-by-client basis, HMSI may accept a smaller account size. It is possible that the management fee for such accounts may be higher than the standard rates described in item 5.

Regardless of client type or minimum account size, each HMSI client must execute a written contract that governs HMSI's investment advisory relationship with the client.

8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

HMSI's competitive advantage lies in its unique investment process, which combines proprietary quantitative screening tools with fundamental and qualitative overlays. The unique investment process is designed to capture alpha and maintain appropriate risk profiles with complete transparency. Further, the HMSI investment process excludes forecasting and speculation resulting in stock selection that is unbiased, disciplined and consistent. For over 20 years, the same HMSI investment team has applied its unique process to actively manage diversified equity portfolios for institutional clients looking for an exceptional level of client service as well as performance.

The investment strategy is based on an adaptive portfolio construction that dynamically adjusts to the current market environment leadership, regardless of whether or not it is a Value or Growth oriented cycle. HMSI's philosophy is based on the investment theory that a small percentage of stocks produce the substantial majority of the market's gains over the long term. While constructing portfolios with fundamental and qualitative overlays, HMSI utilizes its proprietary quantitative screening tools to identify emerging equity market leadership and the risk/reward probabilities for "buy" and "sell" points for each stock. Employing a highly disciplined, unbiased, risk-controlled approach designed to deliver consistent, long-term results, the process captures alpha as portfolios adapt to varying market environments through the weekly evaluation of the risk/reward probabilities for each individual stock. The proprietary investment strategy

and process is based on work started in the early 1990's by HMSI's Chief Investment Officer ("CIO"), Ed Meihaus, and is applied to all HMSI portfolios. The process is not, by design, biased towards Growth or Value, because the portfolio will adapt to become more Growth oriented as Growth is in favor and more Value oriented as Value is in favor. HMSI's ability to outperform the market *has historically* been generated in two ways: (i) buying stocks with a strong positive trend and selling stocks before they enter a secular downtrend or trading range (i.e. stock selection); and (ii) actively managing the selection and weight of stocks in the portfolio to increase exposure to the right stocks and sectors while adapting to the overall market's offensive/defensive posture. The consistency of past performance has also been derived from an investment process that limits cognitive and other biases that may influence the decisions of many investors.

Investing in securities involves risk of loss that clients should be prepared to bear. HMSI makes no representation that its investment program will be successful. Its investment program is not intended as a complete investment program. HMSI's past performance is not a guarantee of future results.

HMSI's investment strategies are designed for investors with long term investment goals, as they involve substantial risks. The risks of HMSI's investment process include, but are not limited to, HMSI's skill in constructing portfolios and implementing the process, equity market risk, and market capitalization risk. In addition, highly rotational market environments, like the ones that existed from 2000 through June of 2014, and which may continue, can increase portfolio turnover. HMSI expects turnover to be somewhere between 75% and 125% per year during rotational market periods. During periods of more sustained and low volatility leadership, portfolio turnover will be lower. HMSI's sell disciplines are the single factor determining portfolio turnover. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

9. DISCIPLINARY INFORMATION

HMSI and its management personnel are not subject to any legal or disciplinary event (including criminal or civil actions in domestic or foreign courts and administrative proceedings by state, federal or foreign regulatory authorities) that is material to any current or potential client's evaluation of HMSI's advisory business or to the integrity of HMSI's management. Nor have HMSI or its management personnel been subject to such events in the past.

10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither we nor any of the Firm's management personnel have any relationships or arrangements that pose material conflicts of interest to the business of HMSI.

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

HMSI has adopted a code of ethics, contained within its Corporate Policies & Procedures Manual (the “**Manual**”), which includes policies addressing business ethics, personal trading by employees, insider trading, ongoing ethics training, anti-money laundering, anti-fraud, professionalism in the workplace, and privacy and control of client information. A copy of the HMSI Manual is available upon request.

HMSI’s personal trading policies apply to HMSI, its employees and their immediate family members (all “**Access Persons**”). Personal trading policies cover any purchases and sales of equities, options on equities, or options on any other publicly traded commodity or security, commodity futures contract, derivative contract and fixed income securities, not just to securities and other assets held in client portfolios managed by HMSI.

In the event any of HMSI’s Access Persons has a material financial interest in a security that is in a client portfolio managed by HMSI, HMSI’s board will determine on a case-by-case basis what action should be taken to avoid any conflict that might disadvantage a HMSI client.

It is HMSI’s policy to conditionally allow personal trading accounts by Access Persons. If an Access Person wishes to trade in individual equities, the personal trading account must be held at an HMSI approved custodian and must be contained within one of HMSI’s or its related entity’s GIPS-defined composites to be traded alongside client accounts. For example, HMSI trades its own account which is comprised of an employee 401K account within the All Cap product. As described in Section 12, “Brokerage Practices”, HMSI aggregates orders for execution on a pre-allocated pro rata basis to help ensure fair and equitable treatment across various accounts.

If an Access Person wishes to trade in futures, commodities, corporate bonds/treasuries, or exchange-traded funds (“**ETFs**”), trading is allowed without pre-approval in all except for the SPY ETF. Trading in the SPY ETF will require pre-approval by HMSI’s Chief Compliance Officer (“**CCO**”) or Chief Executive Officer (“**CEO**”).

HMSI’s Access Persons who engage in personal trading must provide HMSI with an initial holding report upon becoming an Access Person, monthly statements of their trading, and an annual holding report.

Adhering to the policies incorporated into HMSI’s Manual is a condition of employment at HMSI. If a HMSI employee is found to be in breach of HMSI’s policies, then HMSI’s

CCO or board will take action ranging from a verbal warning to dismissal, depending on the circumstances of the breach.

12. BROKERAGE PRACTICES

In selecting and suggesting broker-dealers (“**brokers**”) for client transactions, HMSI considers (i) the reputation of the broker in the financial community; (ii) past business experience, if any, with the broker; (iii) the range and quality of ancillary services provided by the broker; (iv) the broker's ability to execute in a timely, efficient, and error-free manner; (v) the expertise of the broker's registered representatives; (vi) the broker's ability to execute transactions in all of the markets in which HMSI offers products; and (vii) any client-specific requirements, e.g., a ceiling on brokerage costs. HMSI determines the reasonableness of the broker's commissions based on (i) HMSI's assessment of the broker's performance in the context of the foregoing seven factors and (ii) whether the broker commissions are reasonable in comparison to the charges of comparable brokers.

HMSI accepts no “soft dollar” benefits (i.e., research or other products or services from brokers who execute client transactions) nor does it direct brokerage as a reward for client referrals.

Clients directing brokerage to a particular broker may incur higher commission and other transaction costs than clients who authorize HMSI to select the broker. For example, if an HMSI client directs HMSI to place its trades with a certain broker, HMSI might be limited in its ability to negotiate commissions or volume discounts.

In the interest of best execution and to help ensure a fair and equitable basis for allocating trades among various clients, where possible and permitted by the client, HMSI aggregates orders for execution. Trades within an order are typically pre-allocated pro rata among client accounts in accordance with client guidelines. If the order is not completely filled, executed trades are allocated pro rata in accordance with the pre-allocations. If more than one trade is executed, the trades are booked to client accounts at an average price and commission rate. When average price fills are not possible, brokers are rotated to ensure equal treatment of accounts.

13. REVIEW OF ACCOUNTS

All securities positions held by HMSI's clients are reviewed daily by at least two members of HMSI's portfolio team. Additionally, at least two team members must review each final decision prior to execution within any portfolio.

At least quarterly, HMSI furnishes to clients written statements of gains and/or losses, as well as any further analyses required by the client. At a minimum, each client receives an overview of performance and a basic attribution for the period relative to the specified benchmark and an outlook of the upcoming quarter.

14. CLIENT REFERRALS AND OTHER COMPENSATION

HMSI receives no compensation from non-clients for any activity related to its advisory business. HMSI does not pay third parties for client referrals.

15. CUSTODY

HMSI does not take physical custody nor act as a custodian of client funds or securities. Clients receive account statements directly from their qualified custodians. HMSI encourages clients to carefully review all custodian statements and to compare those statements with any statements received from HMSI.

HMSI may be deemed to have custody of client assets if it has the authority to withdraw its management fees from a client's account. HMSI follows the SEC's rules regarding this 'deemed' custody.

16. INVESTMENT DISCRETION

HMSI generally has discretionary authority to determine, without obtaining client consent, the securities to be bought or sold, the amount of such securities, the broker to be used, and the commission to be paid. This authority is given in the client contract. Any exception to this authority is dictated on a case-by-case basis per the client contract. In such cases, the client may be put at a disadvantage in terms of securities selection and execution of trades.

17. VOTING CLIENT SECURITIES

HMSI votes proxies only if required under the client contract. If required under the client contract, HMSI votes according to the client's proxy voting guidelines. Absent client guidelines, HMSI votes to maximize long-term shareholder value, to maintain shareholder control, and to generally approve routine corporate matters. HMSI evaluates some issues on a case-by-case basis, e.g., stock option and bonus plans, corporate combinations and divestments, shareholder proposals, and social/political proposals. Conflicts may arise with respect to voting, especially in cases where a client is the issuer of the securities being voted. HMSI's board will monitor events to identify any material conflicts and, if such conflicts arise, determine what action, if any, should be taken. HMSI utilizes ProxyEdge as its proxy service. A copy of HMSI's proxy voting policies, including its current standing instructions with ProxyEdge, is available upon

request. Specific proxy votes cast by HMSI are available upon request to clients who require HMSI to vote their securities.

18. FINANCIAL INFORMATION

HMSI does not require nor solicit prepayment of fees. HMSI has not been the subject of a bankruptcy petition at any time.

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This brochure supplement provides information about Harry "Ed" Meihaus, Russell T. Sanderson, and Brian R. Stangel that supplements Hanseatic Management Services, Inc.'s brochure. You should have received a copy of that brochure. Please contact Amy Stangel/Chief Compliance Officer at 505 828 2824 or info@hanseaticgroup.com if you did not receive Hanseatic Management Services, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Brian R. Stangel is available on the SEC's website at www.adviserinfo.sec.gov.

BIOGRAPHIES

Harry “Ed” Meihaus (Born 1946) Chief Investment Officer (“**CIO**”)/Chairman, (BSME, University of Louisville; MBA, University of Memphis), joined Hanseatic (HMSI predecessor) in 1985. Mr. Meihaus is the architect of HMSI’s mathematical investment framework, primarily the set of disciplines that underlie HMSI’s equity products. Mr. Meihaus oversees the investment philosophy and process as well as research and development. Mr. Meihaus is lead portfolio team member for HMSI’s Large Cap and Large Cap High Quality product. Mr. Meihaus has no disciplinary history. Mr. Meihaus is supervised by HMSI’s board, whose members can be contacted at 505-828-2824.

Russell T. Sanderson (Born 1963) Chief Executive Officer (“**CEO**”)/Portfolio Manager, (BUS, University of New Mexico), joined Hanseatic (HMSI predecessor) in 1989. Mr. Sanderson provides day-to-day oversight of the business: all revenue generating, cost reduction, and risk mitigation objectives. Mr. Sanderson maintains the primary technical role in the oversight and application of the mathematical investment framework which is used to manage HMSI’s equity products. Over the years, Mr. Sanderson worked in all major aspects of the firm’s operations, focusing primarily on systems development and IT. Mr. Sanderson co-leads HMSI’s Mid Cap, Growth & Income, and International products. Mr. Sanderson has no disciplinary history. Mr. Sanderson is supervised by HMSI’s board, whose members can be contacted 505-828-2824.

Brian R. Stangel (Born 1970) Deputy Chief Investment Officer (“**Deputy CIO**”), (BA, University Wisconsin-Milwaukee, Series 65), joined Hanseatic (HMSI predecessor) in 1993. Mr. Stangel works closely with Mr. Meihaus as the Deputy CIO overseeing all composites, the investment process and strategic management. Mr. Stangel also works closely with marketing and client services. Over the years, Mr. Stangel developed knowledge and experience in each of the major operational and support areas of the business, including trading, compliance and performance accounting. Mr. Stangel co-leads HMSI’s Mid Cap, Growth & Income, and International products. Mr. Stangel holds the Series 65 license. The Series 65 is a “criterion based” minimum competency examination. The exam is administered to professionals within the investment industry. Criterion based means that a minimum passing criterion is established. The Series 65, officially known as The Uniform Investment Adviser Law Exam, is designed to test an individual’s knowledge and ability to advise clients in the area of investing and discuss general financial concepts. Mr. Stangel has no disciplinary history. Mr. Stangel is supervised by HMSI’s board, whose members can be contacted at 505-828-2824.