

## **Smith Affiliated Capital Corp.**

800 Third Avenue, 12th Floor

New York, NY 10022

Tel: (212) 644-9440

Fax: (212) 644-1979

[www.smithcapital.com](http://www.smithcapital.com)

March 31, 2014

### **Item 1      Cover Page**

This brochure provides information about the qualifications and business practices of Smith Affiliated Capital Corporation ("SAC"). If you have any questions about the contents of this Brochure, please contact us at (212) 644-9440. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Smith Affiliated Capital is a SEC-registered investment adviser located at 800 Third Avenue New York, New York 10022. Website: [www.smithcapital.com](http://www.smithcapital.com). Registration of an adviser does not imply that the adviser has attained any level of skill or training. The oral and written communications of Smith Affiliated Capital provide you with information about which you determine to hire or retain SAC.

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

## Item 2 – Material Changes

This brochure dated March 31, 2014 is an amendment to the Company's last updated brochure dated, March 31, 2013. Pursuant to SEC rules, we will ensure that you receive a summary of any material changes to this Brochure and subsequent brochures within 120 days of the close of SAC's fiscal year. You may request the most recent version of our brochure by contacting John Smith, SAC's Chief Compliance Officer or Maria Smith, CEO, at (212) 644-9440.

The following material changes have been made:

- 1) John A. Jenney – retired from Smith Affiliated Capital on March 31, 2014 after 20 years of service to the firm.
  - 2) Bruce D. George – hired May 2013 as Executive V.P. Marketing and New Business Development.
  - 3) Joseph Conor Lyons, CFA Level III candidate, promoted to assistant portfolio manager and member of SAC's investment committee
- **Added to item 4 Advisory Services:** Item 4 has been updated to reflect SAC's AUM as of December 31, 2013. We also added SAC's use of sub-advisers for certain strategies not offered directly by SAC.
  - **Added to Item 5 Fees and Compensation:** We explain that SAC will receive a percent of the management fees charged by sub-advisers that work with SAC clients. Also minimum fees were added to our short term strategies.
  - **Added to Item 6 Performance-Based Fees and Side-by-Side Management:** We explain that while SAC does not charge Performance-Based Fees and Side-by-Side Management advisers in our sub-adviser network do and are fully disclosed in their offerings.

### Item 3 – Table of Contents

|   |    |
|---|----|
| Item 1 – Cover Page.....  | 1  |
| Item 2 – Material Changes.....  | 2  |
| Item 3 – Table of Contents.....   | 3  |
| Item 4 – Advisory Business .....  | 4  |
| Item 5 – Fees and Compensation.....                                       | 7  |
| Item 6 – Performance-Based Fees and Side-By-Side Management.....          | 11 |
| Item 7 – Types of Clients.....  | 12 |
| Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss..... | 12 |
| Item 9 – Disciplinary Information .....                                   | 20 |
| Item 10 – Other Financial Industry Activities and Affiliations .....      | 20 |
| Item 11 – Code of Ethics .....  | 21 |
| Item 12 – Brokerage Practices .....                                       | 22 |
| Item 13 – Review of Accounts.....   | 24 |
| Item 14 – Client Referrals and Other Compensation.....                    | 25 |
| Item 15 – Custody .....   | 25 |
| Item 16 – Investment Discretion .....                                     | 26 |
| Item 17 – Voting Client Securities.....                                   | 27 |
| Item 18 – Financial Information.....                                      | 28 |
| Additional Information.....   | 29 |

## Item 4 – Advisory Business

Smith Affiliated Capital Corp. (“SAC”) is an independent, registered investment advisory firm based in New York. SAC was founded in 1982 by Robert G. Smith, Ph.D., and is organized as a “C” corporation under the laws of the State of New York. Smith Affiliated Ventures, LLC, (“SAV”), a limited liability corporation, was formed to be the holding company for Smith Affiliated Capital, (“SAC”). Robert G. Smith, Ph.D., the company’s present Chairman, has been named Chairman of SAV. The creation of SAV provides business continuity and succession planning capabilities through its multiple classes of shares as well as flexibility for ownership and growth through acquisitions, mergers and strategic partnerships.

Smith Affiliated Capital Corp. (“SAC”) is a wholly owned subsidiary of Smith Affiliated Ventures, LLC. (“SAV”). SAV is owned and controlled by members of the Smith family. Robert G. Smith retains control and ownership of 49% of SAV LLC, Maria E. Smith, Matthew J. Smith and John K. Smith each independently own 17% of SAV LLC. (A principal owner is someone who owns at least 25% of the firm). Smith Affiliated Capital (“SAC”) will operate as an employee owned entity.

As of 12/31/13, SAC manages \$2,821,687,819 billion in AUM for its clients. AUM for discretionary management was \$1,686,316,809 billion; AUM for non-discretionary management was \$1,135,371,010.

Our portfolio management process is driven by our Investment Committee. No employees are registered representatives of a broker-dealer. The members of Investment Committee are:

|                            |   |
|----------------------------|---|
| Robert G. Smith, Ph.D.     | Chairman  |
| Maria E. Smith             | Chief Executive Officer                                   |
| Matthew J. Smith           | President & Co-CIO Enhanced and Precious Metals           |
| Jiang Peng, CFA            | Executive Vice President & Co-CIO Fixed Income Strategies |
| Bruce George, CFA,CAIA     | Executive Vice President / Business Development           |
| Paul Matus                 | Vice President / Portfolio Manager                        |
| Jerry Miller, CFA          | Vice President / Portfolio Manager                        |
| Erwin Tonogbanua           | Vice President / Portfolio Manager                        |
| Conor Lyons, CFA Level III | Assistant Portfolio Manager/ Performance Analyst          |

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we custom design and tailor our advisory services to meet our clients’ individual needs. As used in this Brochure, the words “we”, “our”, and “us” refer to SAC, and the words “you”, “your”, and “client” refer to you as either a client or prospective client of our firm. You also may see the term “Associated Person” throughout this brochure. As used in this brochure, our Associated Persons are our firm’s officers, employees, and all individuals providing investment advice on behalf of our firm.

The investment advisory services rendered consist principally of providing continuous investment advice to clients based on their individual needs on a discretionary, non-discretionary, or advisory basis.

### **Portfolio Management Services**

Our firm offers professional discretionary and non-discretionary investment advice to our clients directly and through other financial advisors (“Sub-Advised” clients) or wrap programs (“Wrap Program” clients), all with prior client approval and contracts. SAC receives a portion of the Wrap Program fee as compensation for its investment advisory services to Wrap Program clients. Because no two clients have exactly the same financial goals, SAC separately manages investment portfolios to meet each individual client’s stated objectives, goals, and risk tolerances, taking into consideration each client’s need for liquidity, safety, income, and growth and any other relevant information (the “suitability information”) at the beginning of our advisory relationship.

We use the information gathered in our discovery phase to develop a strategy, and if not provided, an investment policy statement (IPS) that enables our firm to provide continuous and focused investment advice and/or to make investments on your behalf. Once the IPS is developed and documented, SAC will address how to best construct or rebalance your investment portfolio in accordance with the risk tolerances and investing objectives stated in the IPS. Typically, portfolios will align with one or more of our composite investment strategies. Portfolio investments and performance are actively managed and monitored on an ongoing basis, and will rebalance the portfolio as required by changes in market conditions and/or your financial circumstances. Any changes to the original IPS based on the stated circumstances are also documented and recorded within our client files by one of the Associated Persons of our firm.

### **Discretionary Services**

SAC provides discretionary management services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities.

When participating in our discretionary services, we have the authority to make investment decisions on behalf of our clients, including which securities to buy and sell (referred to as “discretionary authority”) consistent with each client’s objectives and guidelines.

Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold without approval prior to each transaction.

The discretionary authority is typically granted by the Investment Manager Agreement signed with our firm, a power of attorney, or trading authorization forms. Our discretionary authority can be limited by the written IPS that is provided to SAC, or designed and agreed upon by the client at the inception of SAC’s advisory services.

## **Non-Discretionary Services**

SAC offers non-discretionary management services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities. Our non-discretionary services are a combination of the following: asset allocation, liability analysis, investment policy consulting, tax-efficient investment planning, crossover investing, second opinions, investment diagnostics, portfolio monitoring, and investment execution. Non-discretionary management agreements that include investment execution (buying and selling of transactions in our client's account) require client approval prior to execution.

## **Advisory Services**

If you enter into an advisory agreement with SAC for expert forensic opinions, SAC will not be responsible for the execution, timing, or ultimate decisions made by the client for the type of investments made by the client's discretionary investment manager. Current and prospective advisory clients are ultimately responsible for determining whether any investment, security, or strategy is appropriate or suitable based on the client's investment objectives and financial situation.

SAC provides the following types of advisement and is intended purely for guidance and education:

*Plan-specific or funding information, liability analysis, and actuarial review* include the benefits of increasing contributions and other information, such as details on the available investment options (e.g., each risk and return characteristics, historical return information, prospectus).

*General financial and investment education* informs clients about investing concepts such as types of risk (market, inflation, etc.), diversification, dollar cost averaging, compounding, etc. This category also includes general information about asset classes as well as determining time horizons, risk tolerance levels, and retirement income needs.

*Asset allocation modeling* provides clients with examples of diversified portfolios based on certain investor profiles. This information may include charts, spreadsheets, and/or case studies that pertain to hypothetical individuals with differing time horizons and risk profiles.

*Interactive investment material* provides clients with tools to help them make investment decisions and generally will include proprietary research and analytics as well as assess the impact that different asset allocation models might have on their future investment income.

### **Sub-Advisory Services**

SAC will recommend investment advisers that we believe can add value to a client's overall asset allocation needs. Upon the client's approval, SAC will contract with the "sub-adviser" for their services and simultaneously the client will execute an advisory contract with the sub-adviser prior to any investment management services.

In this capacity, SAC is manager working with the sub-adviser during the contract period with selected sub-adviser. During this period, SAC will provide investment management oversight and review of all transactions and investment strategies as well as monitor the performance and process records and billing similar to our discretionary services mentioned above.

Clients will be provided with the sub-advisers required documentation for investment services prior to the management of assets.

## **Item 5 – Fees and Compensation**

### **Discretionary Services**

Our annual discretionary portfolio management fee is billed and payable on a quarterly basis, either in arrears or more typically in advance, depending on the agreement you sign with us. The fees are based on the value of your account on the last day of the quarter. If the portfolio management agreement is executed at any time other than the first day of a calendar period, our fees apply on a pro-rata basis, which means that the management fee is payable in proportion to the number of days in the quarter for which you are a client. Our management fee is negotiable depending on individual client circumstances, such as client location, asset size, liquidity needs, number of accounts per individual relationship, and/or the transition period for rebalancing the investment portfolio that is required to meet the mutually agreed-upon stated objectives in the most current, recorded IPS on file.

Included in our discretionary service fees, SAC takes into consideration the frequency of required communication, report generation for accounting requirements, cash-flow analysis, end-of-year tax reporting, liquidity requirements, research, and custodial reconciliation.

Our fees for discretionary portfolio management services are based on a percentage of your assets we manage and are set forth in the following proposed fee schedules and investment strategies. All accounts are separately managed portfolios.

**Taxable Investment Strategies:**

## 1) CashPlus: Investment Grade Fixed Income

| <u>Assets under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| \$5,000,000 to \$10,000,000    | .25%              |
| \$10,000,001 to \$50,000,000   | .20%              |
| \$50,000,001+                  | .15%              |
| Minimum fee                    | \$10,000          |

## 2) Low Duration: Government Only and Investment Grade Fixed Income

| <u>Assets under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| \$5,000,000 to \$10,000,000    | .30%              |
| \$10,000,001 to \$50,000,000   | .25%              |
| \$50,000,001+                  | .15%              |
| Minimum fee                    | \$10,000          |

## 3) Intermediate: Government Only and Investment Grade Fixed Income

| <u>Assets under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| \$5,000,000 to \$10,000,000    | .35%              |
| \$10,000,001 to \$50,000,000   | .30%              |
| \$50,000,001+                  | .15%              |
| Minimum fee                    | \$10,000          |

## 4) Core: Government and Investment Grade Fixed Income

| <u>Assets under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| \$5,000,000 to \$10,000,000    | .40%              |
| \$10,000,001 to \$50,000,000   | .35%              |
| \$50,000,001+                  | .15%              |

## 5) US Treasury Inflation-Protected

| <u>Assets under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| \$5,000,000 to \$10,000,000    | .40%              |
| \$10,000,001 to \$50,000,000   | .35%              |
| \$50,000,001+                  | .15%              |

**Tax-Exempt Investment Strategies: National and State Specific strategies**

## 1) Limited Duration Municipal

| <u>Assets under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| \$5,000,000 to \$10,000,000    | .40%              |
| \$10,000,001 to \$50,000,000   | .35%              |
| \$50,000,001+                  | .15%              |
| Minimum fee                    | \$15,000          |



## 2) Core Municipal

| <u>Assets under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| \$5,000,000 to \$10,000,000    | .45%              |
| \$10,000,001 to \$50,000,000   | .40%              |
| \$50,000,001+                  | .15%              |
| Minimum fee                    | \$15,000          |

### **Separately Managed Accounts: Balanced and Equity strategies :**

#### 1) Enhanced Fixed Income and Precious Metals (Real Return)

| <u>Assets under Management</u> | <u>Annual Fee</u> |
|--------------------------------|-------------------|
| \$5,000,000 to \$10,000,000    | .85%              |
| \$10,000,001 to \$50,000,000   | .75%              |
| \$50,000,001+                  | .15%              |

### **Non-Discretionary and Advisory Services**

Our fee for non-discretionary and advisory portfolio management services is based on a percentage of your assets we manage or advice on and is set forth in the following schedule:

| <u>Assets under Management</u>    | <u>Annual Fee</u> |
|-----------------------------------|-------------------|
| First \$10,000,000                | .35%              |
| Next \$10,000,001 to \$50,000,000 | .25%              |
| Over \$50,000,000                 | .15%              |

Fees for our non-discretionary and/or advisory services are negotiable depending on individual client circumstances.

SAC may also assess a fixed-rate fee only for those advisory services where we provide detailed reports or other services outside the scope of portfolio management services as described above. The fees for such services are based on the scope and nature of the service as well as the complexity of the financial situation. In all cases, applicable fees, fee paying arrangements, and the terms of the engagement will be clearly set forth in the client agreement executed in advance of the service being rendered.

### **Other Fee Considerations**

When requested by a not-for-profit or a charitable organization, SAC may consider a discount of their advisory service fee. We do not charge upfront fees. We will not require prepayment of fees more than six months in advance and in excess of \$1,200. Further, any expenses incurred by us (e.g., travel costs) in the course of providing you with the

contracted services may also be charged to you. SAC's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees, and commissions are exclusive of and in addition to SAC's fee, and SAC shall not receive any portion of these charges, fees, and commissions.

### **Compensation Based Conflicts**

SAC may benefit financially when using a sub-adviser which may create a financial conflict. SAC and the sub-adviser discloses this conflict in the investment management agreements (for Accounts) and offering documents for potential investors, and will only retain sub-advisers when SAC believes that doing so is appropriate and in the best interests of the relevant investment fund, strategy or Account.

### **Termination of Services and Rebate of Fees**

Agreements entered into with clients provide for termination by notice in writing by either party. In such event, fees paid in advance are pro-rated to the date of termination as specified in the notice of termination (30 days' notice is generally required), and any unearned portion is refunded to the client.

### **Billing Process**

Fees are billed and payable quarterly in advance based on the value of your account on the last day of the previous quarter. If the portfolio management agreement for non-discretionary or advisory services is executed at any time other than the first day of the calendar quarter, our fees apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. For discretionary investment management services, SAC will send you an invoice for the payment of our advisory fee along with a copy of your most recent portfolio holding statement under management as well as the accounts performance results from inception under our management. Fees can be paid by the client or deducted directly from your investment account after you have provided proper written authorization to SAC and the qualified custodian holding your funds and securities. This authorization permits SAC's fees to be paid directly, upon delivery and receipt of a proper invoice, to our firm from your account. The qualified custodian will deliver a monthly account statement to you. These statements will show all transactions, disbursements, and receipts in your account. You should review all statements for accuracy.

You may terminate your portfolio management agreement upon written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter plus 30 for which you are a client. For example, if you paid in advance for the quarter on April 1 and decided to terminate your contract on May 1, SAC will reimburse the pro rata fee from May 1 plus 30 days. You will therefore receive a prorated refund of fees paid from June 1 to June 30.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest or recommend that you invest in mutual funds and exchange-traded funds. The fees that you pay for our investment advisory services are separate and distinct from the fees and expenses charged by the mutual fund complex or exchange-traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. These fees and charges are typically imposed by the broker-dealer or custodian through which your account transactions are executed. We do not share in any proportion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost that you will incur, you should review all fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this brochure.

Item 12 further describes the factors that SAC considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

SAC does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

SAC's sub-adviser relationships may charge an asset based and performance based fee as stated in their ADV Part II Brochure.

### **Conflicts**

SAC may have an incentive to favor clients that pay performance-based fees over clients that pay only asset-based fees. To address these conflicts, SAC's policies and procedures seek to provide that investment decisions are made without consideration of its financial interests, and instead are made in accordance with SAC's fiduciary duty to all clients.

## **Item 7 – Types of Clients**

SAC provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, private investment funds, trust programs, sovereign funds, and other U.S. and international institutions.

The minimum account size that SAC will accept varies dependent upon the investment strategy. SAC will generally manage Advisory Accounts with a minimum size of \$5,000,000 and will further require that no withdrawal may be permitted if doing so reduces the Advisory Account to less than \$500,000, unless the Advisory Account is being terminated. However, SAC may, in its discretion, based upon its total client relationship and other circumstances, accept smaller accounts.

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

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

The following is a summary of (i) the strategies and methods SAC uses in formulating advice or managing assets (and their material risks) and (ii) the material risks associated with the type of securities that SAC primarily recommends to its clients.

SAC seeks to generate superior long-term returns while minimizing risk through a consistent, risk controlled framework that supports a disciplined, repeatable investment process.

SAC offers concentrated fixed income strategies within the investment grade universe as well as multiple strategies within the confines of investment grade fixed income.

In addition to our fixed income strategies SAC will invest in equity sectors as well as precious metals in order to enhance the total return outcome of the investment portfolio. These allocations are typically part of SAC's Enhanced Fixed Income strategy. SAC investments are long only strategies and do not incorporate the use of leverage, options or futures.

### **Investment Philosophy**

SAC incorporates a liability-driven process into our total-return investment strategies.

*Liability-driven* is a financial and actuarial term used to describe investment policies, and, more generally, asset management decisions, that are determined in large part by the sum of current and future liabilities attached to the investment-making entity, be it an individual or an institutional investor. The goal is to inject a "holistic" approach into our investment process with an understanding of both the assets and the liabilities of a client's balance sheet.

Our liability approach includes the basic quantitative "time value of money" methodology. Cash

flow needs are analyzed and valued to assess its ability to fund future liabilities. This process is sometimes referred to as a “dedicated portfolio” strategy and differs from a pure “benchmark-driven” strategy, which is based on achieving better returns than external indices such as the Barclays Capital Aggregate Bond Index or S&P 500 index, that invest in the same type of asset classes.

We calculate portfolio changes over a series of time periods using “total-return” calculations that include the following 4 components of “total- return” valuation for client portfolios:

- 1) realized gains and losses
- 2) unrealized gains and losses/changes in market value
- 3) income earned and paid during the period
- 4) accrued income: income earned and not yet paid during the period

To support our process SAC identifies investment opportunities by following a fundamental, research driven process and selects securities from a wide range of potential investments. We do not discriminate or characterize our investment style when designing an equity or fixed income strategy, rather we seek to provide sustainable, positive outcomes over the long-term with significant liquidity to meet a client’s near term liability and long-term goals.

### **Active Management and Investment Performance Analysis**

Our performance analysts use a set of techniques to assess the “active return” or excess return attributable to a portfolio's performance relative to its predefined benchmark. In its simplest terms, the active return is the component of a portfolio's performance that arises from the fact that the portfolio is actively managed. Different kinds of performance attribution provide different ways of explaining the active return.

SAC’s performance analysts attempt to distinguish the effect of our active investment decisions and the execution of those decisions across two factors of portfolio performance: 1) security selection and 2) market timing. Specifically, our process compares the total return of the manager’s investment strategies with the return for a predetermined benchmark. We then decompose the difference into a selection effect and an allocation effect.

There are two different kinds of decisions that our portfolio managers can make in an attempt to produce added value: 1) asset allocation across sectors and 2) security selection. SAC’s attribution analysis further attempts to dissect the value added into three components:

- 1) **Asset Allocation** is the value added by under-weighting or over-weighting a particular asset class relative to a portfolio strategy’s benchmark
- 2) **Security Selection** is the value added by decisions within each sector of the portfolio. The manager may try to hold securities that will give a higher return than the overall benchmark

3) **Interaction Analysis** captures the value added that is not attributable solely to the asset allocation and security selection decisions. These may be attributable to other factors that can affect fixed income and equity securities; those factors include macro- economic, duration decisions, industry selection, country selection, state selection, and the embedded option of a particular security or asset class.

In all cases, the goal of the three attribution terms (asset allocation, security selection, and interaction) should sum exactly to the active return, thereby eliminating any residual return not identified or accounted for.

Our performance attribution and risk attribution analysis is meant to evaluate the effect of each type of controllable decision on the “active return” with the goal of balancing the portfolio in a way that minimizes risk and optimizes return.

### **Return Attribution and Risk Analysis**

Regardless of the type of investing vehicle, *investing in securities involves risk of loss that clients should be prepared to bear*. We understand that risk comes in a variety of ways and does not always present itself at the same time. Most long-term decisions surrounding risk usually start with poor timing upon implementation or during periods of significant rebalancing of changes in asset allocations. We believe that performance in the future needs 1) better risk management and 2) identifying new secular themes.

Our macroeconomic analysis isolates various economic themes to test which macro factors will lead to the greatest increase in performance across our strategies. While our macro themes provide a backdrop and support for our portfolio strategies, performance and construction are not purely dependent on any one macro event.

### **Method of Analysis**

SAC uses a combination of fundamental, quantitative, qualitative, and technical analysis that includes an active approach to top-down and bottom-up investment analysis. Methods of analysis start with a thorough understanding of our client’s goals, objectives, and needs. This is documented for each client within the Investment Policy Statement (IPS) prior to investing our client’s assets.

- 1) IPS construction and review
- 2) All investments come with a level of risk; the IPS should clearly identify the acceptable risks the client is willing to take given a certain level of return.

Because most investors do not measure risk purely in terms of standard deviation, SAC helps clients understand and assess risk during the initial due diligence process and client review. We believe it is important to understand the risk regime at the point of inception.

The policy statement identifies the asset classes permitted, the liquidity and/or funding needed, and the expected total returns required within a market cycle, which is typically 3-5 years. A defined liability and/or a market benchmark is determined in view of the agreed-upon stated objectives and goals. This gives our clients the ability to measure the ongoing progress of the investment portfolio on a gross-of-fee, net-of-fee, and risk-adjusted basis.

### **Risk Associated With the Development of the IPS**

It is possible for clients to leave out critical information during the discovery phase and development of the IPS. This can have a negative impact for the types of investments and the investment horizon as well as the investment performance results. SAC makes every attempt to discuss all relevant financial and non-financial information that may affect a client's investment strategy and performance. We look to mitigate these risks by offering frequent reporting to our clients and designated consultants, accountants, and attorneys. We request at least an annual face-to-face meeting with clients. Our daily account administration services and processes includes daily reconciliation of cash and security positions, valuations, and the methodologies used with our client's designated custodians, and daily portfolio analytics and performance evaluations. In addition, we provide regular and frequent industry reports and analysis via postal mail, e-mail, and our website.

### **Active Management Process**

SAC identifies sources of risk that may affect the outcome of expected returns within our investment strategies with a goal to minimize or mitigate those risks. We invest in investment-grade fixed income, equities, and commodity securities that provide a combination of value, income, and growth. Typical risk factors associated with our strategies are sector risk, reinvestment risk, business risk, market risk, interest-rate risk, and purchasing power risk; call risk, prepayment risk, liquidity risk, credit risk, default risk, tax risk, and event risk.

SAC employs an active risk-management process. At the point of inception, SAC determines the most appropriate and efficient asset allocation given the stated investment policy, our view of the fundamental macro landscape, and the technical opportunities and risks being offered in the market. We track our asset allocations over time to see how market value exposures are developing. We have found that certain risk factors can change dramatically over time, so portfolio managers pay particular attention to various downside risk measures and the degree of exposure in our portfolios. Our outlook considers a near-term cyclical and longer-term secular scenario.

### **Developing a Macro Theme: A Global View**

SAC's Investment Committee utilizes a top-down analytic process based on our analysis of a wide range of economic, political, and sentiment drivers over a 12-18 month time horizon. Our ability to identify, anticipate, and forecast secular themes and the various risks associated allows SAC to better hedge our predictions when necessary and take opportunity within a certain degree of accuracy. Our global analysis will drive us into a more in-depth analysis of the U.S. economy and how those factors will affect the health of the stock and bond markets. An examination of economic indicators such as interest rates, inflation and employment, GDP growth rates, exchange rates, productivity, and energy prices are narrowed down to our regional/industry analysis. Regular Investment Committee meetings are held with key personnel to discuss how these themes may or may not apply over the next 3-12 month period.

We will identify and forecast specific influencing factors, including interest rate volatility, yield curve movements, and credit trends. Together, our secular and cyclical outlooks set the economic parameters for our portfolio managers to target. These parameters help define, within a relative range, the duration, yield-curve positioning, sector weightings and credit quality unique to each investment strategy that we offer.

Our bottom-up analysis, including credit and technical analysis, quantitative research, and individual issue selection are then combined with our top-down strategies to add value.

### **Investment Products**

All of SAC's investment products are comprised of separately managed, long position accounts under management at SAC. We do not commingle portfolios; we do not employ leverage or utilize derivatives to enhance returns.

We do not invest in mutual funds but will manage these funds only when inherited in a client's account. We do not use soft dollars to pay for research or the development of new products.

Every client portfolio is individually managed by a team of professionals based on the unique attributes and requirements of the IPS.

We may use one or more of the listed investment strategies (Item 5) and methods or analysis when providing investment advice to you.

### **Investment Strategies**

SAC adds value using a variety of techniques and investment strategies in an attempt to maximize return and minimize volatility. Each portfolio's level of risk is simply an aggregation of the risks of each individual security held in the portfolio; therefore, accurate portfolio level risk measurement depends on accurate individual security risk measurement. Value is added to our product offerings by using a variety of investment strategies as illustrated in the chart below.





Portfolio managers utilize a wide array of analytical tools to value and measure risks in virtually every fixed income and equity security we buy and sell for our clients. The goal of our analysis and stress testing of all embedded assumptions provides managers with the widest spectrum of outcomes from very likely to most unlikely. In our assumptions and analysis, we include important variables, such as volatility and future interest rate movements, relative value and historical trend analysis.

Allocation decisions are considered after we run a series of portfolio stress tests to see what allocation will do best during certain yield curve movements. We have found that we can take advantage of yield curve steepness without taking curve risk.

**Type of Risks Associated with Methods of Analysis and SAC Investment Strategies that may result in Risk of Loss**

1) **Cyclical Analysis:** Economic/business cycles may not be predictable and may have many fluctuations between long-term expansions and contractions. The lengths of the economic cycles may be difficult to predict with accuracy; therefore, the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

2) **Non-Investment Risk Factors:** We may use investment strategies that involve frequent buying and selling of securities in an effort to capture significant market gains and avoid significant losses during a volatile market.

Upon consultation with our clients, we may also sell securities to create other economic advantages, such as 'harvesting' tax credits for high net worth individuals who need to offset significant gains in their investment portfolios.

We may also use short-term trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing your account(s). Short-term trading is not a fundamental part of our overall investment strategy, but we may use this strategy occasionally when we determine that it is suitable given your stated objectives and tolerance for risk.

**3) Interest-Rate Risk:** Duration measures a portfolio's price sensitivity to changes in interest rates. However, it is only an accurate predictor of price for small, parallel shifts in the yield curve. For a small, parallel interest-rate fluctuation, the percentage change in a bond's price is approximately equal to its duration multiplied by the size of the shift. For example, a portfolio with 2-year duration would be expected to go up in price by 2 basis points for every 1 basis point drop in interest rates.

Convexity measures the price effect resulting from moderate to large changes in interest rates when duration cannot effectively predict the change in value of a security. Positive convexity is always favorable for bonds; however, it comes with a price in lower yields. Convexity is more typically used with mortgage-type securities or securities with embedded options, such as municipals.

SAC has the ability to run different scenarios and can stress-test or shock the individual security or portfolio to real-world behaviors, such as a rise or fall of interest rates. The purpose of our analysis is to protect the portfolio from erroneous assumptions and lessen the exposure to various risks.

**4) Yield Curve Risk:** Yield Curve Risk refers to having exposure to the curve that is different than the index and is measured by duration exposure. Yield curve risk gauges price exposure to non-parallel shifts in the yield curve. SAC can actively manage maturity and duration risk using a variety of different asset, sector and security allocations in the portfolio to leverage maturity and duration strategies for example:

- a. Barbell portfolios with short and long securities that will typically outperform bulleted portfolios if the yield curve flattens (spreads of long rates narrow relative to short rates), and vice-versa.

- b. Duration neutral portfolios can have the same duration as the index but be exposed to different parts of the curve using positively convex securities (bullet securities) on the longer end of the curve for roll down and reduced price risk and use negatively convex securities on the shorter end of the curve to boost yield.

c. Duration classifications that sort the portfolio or benchmark into “duration buckets” are analyzed relative to the benchmark stated in the IPS. This process allows the manager greater insight into the nature of a security, portfolio or strategy exposure along the yield curve.

**5) Fundamental Analysis:** Fundamental analysis involves analyzing individual companies and their industry groups, such as a company’s financial statements, details regarding the company’s product line, the experience and expertise of the company’s management, and the outlook for the company’s industry. The resulting data is used to measure the true value of the company’s bond or equity compared to the current market value.

It also involves analyzing individual municipal bond issues, their sectors and issuers. Financial factors that can contribute to the credit risk are employment trends, tax receipts, debt load versus personal income, pension liabilities, labor costs, debt service coverage, cost exposures, and asset valuation. Non-financial factors that can affect the credit risk for other non-corporate type securities in particular municipal bonds are budgetary process, mood of electorate, tax flexibility, regional economic trends, essentiality of service, competition and management.

**6) Sector Risk:** SAC measures sector risk exposure within the portfolios and relative to the stated benchmark. In most cases sector selection is driven by spread relationships on a relative yield and duration basis to the treasury curve using current and historical trends. Asset classes such as mortgages and corporate security need to be calculated and analyzed separately because different factors impact spreads in those sectors, and therefore, they can behave differently from one and other. Similarly, spreads of differently rated bonds do not move in perfect synch, so corporate spreads and their durations need to reflect current market conditions.

**7) Credit Risk Associated to Ratings:** SAC portfolio managers use a bottom up process that focuses heavily on issuer and issue analysis. We rely on in-house and industry research, rather than just rating agencies, for assessing credit risk.

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promise that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

## **Recommendation of Particular Types of Securities**

As disclosed under the “Advisory Business” section in this Brochure, we recommend all types of securities and we do not necessarily recommend one particular type of security over another since each client has different needs and different risk tolerance. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of each type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of SAC or the integrity of SAC’s management. SAC has no information applicable to this item.

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

- American Association of State Comp Insurance Fund (AASCIF)
- Analyst Club
- Association of Benefit Administrators (ABA)
- Chartered Financial Analyst Institute (CFA)
- Connecticut Public Pension Forum (CPPF)
- Downtown Economists of New York City
- Economic Club of NY
- Fixed Income Analyst Society, Inc. (FIASI)
- Healthcare Financial Management Association (HCMA)
- International Foundation of Employee Benefit Plans (IFEBP)
- Investment Adviser Association (IAA)
- Money Marketeers of NYU
- Municipal Analysts Group of NY (MAGNY)/National Federation of Municipal Analysts (NFMA)
- Municipal Bond Club
- Municipal Forum of NY
- National Association for Business Economics (NABE)
- National Economists Club (NEC)

- Native American Finance Officers Association (NAFOA)
- New York Association for Business Economics (NYABE)
- New York Society of Security Analysts (NYSSA)
- NYS Government Finance Officers Association (NYS GFOA)
- Vermont Captive Insurance Association (VCIA)

## **Item 11 – Code of Ethics**

### **Description of Our Code of Ethics**

SAC has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at SAC must acknowledge the terms of the Code of Ethics annually, or as amended.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting John K. Smith, COO at (212) 644-9440 or [jsmith@smithcapital.com](mailto:jsmith@smithcapital.com).

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

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

### **Personal Trading Practices**

SAC anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which SAC has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which SAC, its affiliates and/or clients, directly or indirectly, have a position of interest. SAC's employees and persons associated with SAC are required to follow SAC's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of SAC and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for SAC's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of SAC will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions

while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of SAC's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between SAC and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with SAC's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. SAC will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

### **Agency Cross Transactions**

It is SAC's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. SAC will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting John K. Smith, COO at (212) 644-9440 or [jsmith@smithcapital.com](mailto:jsmith@smithcapital.com).

### **Item 12 – Brokerage Practices**

We maintain relationships with several broker-dealers. While you are free to choose any broker-dealer or other service provider, we recommend that you establish an account with a brokerage firm with which we have an existing relationship.

Such relationships may include benefits provided to our firm, including but not limited to, research, market information, and administrative services that help our firm manage your account(s). We believe that recommended broker-dealers provide quality execution services for our clients at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by recommended broker-dealers, including the value of research provided the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of research services and additional brokerage products and services recommended broker-dealers provide, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

SAC has established the following criteria to consider when assessing the quality of a particular broker-dealer:

- The commission rates charged by the broker in comparison to the charges of other brokers for similar transactions;
- Direct access to the broker's trading desk and the familiarity of the contact person with the adviser's business and interests;
- The extensiveness of the broker's distribution network and its ability to fulfill more difficult orders (e.g., thinly-traded or limited-availability securities);
- The ability of the broker to maintain confidentiality while executing trades to prevent the disclosure of an adviser's investment strategy or the details of an order in a way that will adversely affect the market price;
- The broker's execution abilities, including the level of accuracy in executing orders, speed of execution, and ability to obtain best net price;
- The broker's communications and administrative abilities, including efficiency of reporting, settlement efficiency, and proper correction of trade errors;
- The broker's research capabilities and ability to provide market information;
- The extent to which the broker provides the adviser with access to companies through trade shows, conferences or other contacts;
- The quality and flexibility of any custodial services provided by the broker; and
- The financial stability of the broker.
- The procedures may include a discussion of whether and under what circumstances the adviser will use ECNs.

#### **Research and Other Soft Dollar Benefits**

SAC does not employ the use of soft dollar practices.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **Directed Brokerage**

In limited circumstances, and at our discretion, some clients may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on your behalf. This practice may also prevent our firm from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

### **Block Trades**

We combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as “block trading”). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

## **Item 13 – Review of Accounts**

Smith Affiliated Capital monitors your accounts on a continuous basis and conducts regular account reviews to ensure that the advisory services provided to you and/or the portfolio mix are consistent with your current investment needs and objectives.

Additional reviews may be conducted based on various circumstances, including, but not limited to: contributions and withdrawals, year-end tax planning, market moving events, security specific events, and/or, changes in your risk/return objectives.

We will provide you with monthly and quarterly reports and you should receive trade confirmations and monthly or quarterly statements from your account custodian(s).



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

SAC utilizes the services of third party solicitors for introducing SAC to potential new clients. The solicitor is an “independent contractor” and not an officer, employee, agent or partner of SAC. In order to receive a cash referral fee from our firm, Solicitors must comply with the requirements of the jurisdictions in which they operate. The Solicitation agreement executed with the solicitor or introducing party is negotiated prior to any introduction to a new client. If you were referred to our firm by a Solicitor, you should have received a copy of this brochure along with the Solicitor's disclosure statement at the time of the referral.

A “Solicitation Agreement” is executed in accordance and consistent with the requirements of the Investment Advisors Act of 1940. Specifically, the required Advisor’s Disclosure Statements by the Advisors Act Rule 204-3 and the Solicitor’s Disclosure Statement required by the Advisors Act Rule 206(4) -3. The solicitor agrees to obtain and promptly forward to SAC prior to the time SAC enters into an advisory contract, The Solicitor’s Disclosure Statement and the Acknowledgement of Receipt of these statements, signed and dated by each potential new client.

If you become a client, the Solicitor that referred you to our firm will receive a percentage of the advisory fee you pay our firm, the terms of which will be governed by the agreement between our firm and the Solicitor. You will not pay additional fees because of this referral arrangement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, a Solicitor has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services. Comparable services and/or lower fees may be available through other firms.

Solicitors that refer business to more than one investment adviser may have a financial incentive to recommend advisers with more favorable compensation arrangements. We request that our Solicitors disclose to you whether multiple referral relationships exist and that comparable services may be available from other advisers for lower fees and/or where the Solicitor's compensation is less favorable.

## **Item 15 – Custody**

We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. Only stipulated by you the client in your contract, your custodian may act as the paying agent for our firm. Your independent custodian will directly debit your account(s) for the payment of our advisory fees. The account statements from your

custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy. We will also provide statements to you reflecting the amount of advisory fee deducted from your account. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. You should carefully review account statements for accuracy. We will also provide statements to you reflecting the amount of advisory fee deducted from your account.

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

## **Item 16 – Investment Discretion**

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

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

### **Are Decisions Made By Committees Or By The Manager?**

Decisions are made by consensus in the Investment Committee and implemented by the portfolio managers.

### **Does SAC Employ A Team Approach?**

SAC's decision-making process is built around a team approach, uniting the expertise of its Investment Committee members who have over 150 years of combined experience in the investment of fixed income assets. While the investment responsibilities of each member are distinct, successful implementation involves a fluid and inseparable interaction between them. Committee members and analysts interact on a daily basis and meet once a week to review the firm's economic outlook and investment strategy. This process ensures that client portfolios

benefit from a consensus shaped by the expertise of all the team members.

### **How Much Discretion Is Given To Individual Managers?**

The committee's responsibility is to articulate the firm's investment strategy relating to the macro economic factors affecting the financial markets as a whole. The interest rate outlook, sector positioning and yield curve strategy, security selection, and execution are a combined process of the committee and the portfolio managers. Goals are then established by composite product categories, which the portfolio managers interpret for each client's operating needs and cash position.

## **Item 17 – Voting Client Securities**

### **Summary of Proxy Voting Policies and Procedures**

Investment Advisors Act of 1940 Rule 206(4)-6 imposes a number of requirements on investment advisers that have voting authority with respect to securities held in their clients' accounts. The SEC states that the duty of care requires an adviser with proxy voting authority to monitor corporate actions and to vote the proxies. To satisfy its duty of loyalty, an adviser must cast the proxy votes in a manner consistent with the best interest of its clients, and must never put the adviser's own interests above those of its clients.

We will not vote proxies on behalf of our advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder. In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

## Item 18 – Financial Information



**O'Connor Davies Munns & Dobbins**

ACCOUNTANTS AND CONSULTANTS

We have audited the accompanying statement of financial condition of Smith Affiliated Capital Corp., as of December 31, 2012, and the related statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to present fairly, in all material respects, the financial position of Smith Affiliated Capital Corp. as of December 31, 2009 and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*O'Connor Davies Munns & Dobbins, LLP*

## **Additional Information**

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.