



# CAPITAL FORMATION GROUP, INC.

**CRD Number: 110958**

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*March 31, 2014*

This Brochure provides information about the qualifications and business practices of Capital Formation Group, Inc. (hereafter referred to as “us”, “we”, “our”, “the firm” or “CFG”). If you have any questions about the contents of this Brochure or our firm, please contact us at (781) 237-0123 or send an email to [info@capformgroup.com](mailto:info@capformgroup.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

CFG is registered as an investment adviser with the SEC, and additional information about CFG is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Investment adviser registration by itself does not imply a certain level of skill or training.

## **Item 2: Material Changes**

This section of the ADV Part 2A brochure is meant to describe any material changes relating to Capital Formation Group, Inc. that Client's should be aware of since the last update of this brochure.

CFG's most recent update to Part 2A of Form ADV was made March 28, 2013. CFG's business activities have not changed materially since the time of that update.

Pursuant to SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year, if any do arise in the future. We may further provide other ongoing disclosure information about material changes as necessary. We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting our Chief Compliance Officer at (781) 237-0123 or by emailing [info@capformgroup.com](mailto:info@capformgroup.com).

Additional information about CFG, including a current copy of this Brochure, is available through the SEC's Investment Adviser Public Disclosure (IAPD) system at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4: Advisory Business**

### **Our Firm**

CFG has been a registered investment adviser since 1985, growing to provide a comprehensive range of financial services and products to anticipate and meet our clients' needs.

Our principal owners are John D. Williams, Michael J. Toomey, Jefferson E. Hughes, and Thomas F. Troy.

### **Our Services**

CFG offers the following services:

#### ***Financial Independence Planning***

We work with clients to identify and set aside the capital they need to be financially independent, which we consider an important predicate to investment management. This involves probability of success/portfolio design and may also entail any or all of tax qualified retirement and deferred compensation planning, private banking services, and insurance advice and coordination. This service is often a prelude to establishing an investment management relationship, but it may be provided on a standalone basis.

#### ***Investment Management***

CFG professionals work with clients to customize portfolios to their individual needs, taking into account investment goals, time horizons, risk tolerances, tax issues, liquidity needs and special situations; this process determines a client's optimal asset allocation. The relationship begins with multiple client meetings to establish the above information. CFG then focuses on investment structure and selection. As part of the process, clients may at any and all times impose restrictions on investing in certain securities or types of securities. CFG's investment team, headed by the Chief Investment Officer, can and may invest in any and all asset classes where appropriate for a given client, including but not limited to, passive, index-like investments and active, manager-based investments. CFG typically invests client assets in mutual funds and exchange-traded funds (ETFs), but we may also invest in individual securities or we may place client assets in separately managed accounts with third-party investment advisers with particular expertise, in pooled investment funds, or in other types of investments. For example, when a substantial investment in municipal bonds is appropriate for a particular client, we will place that portion of the client's portfolio with a third-party investment adviser.

CFG primarily provides full discretionary management of client portfolios, meaning that CFG selects the investments or the third-party investment advisers without the need to consult the client beforehand. We measure the performance of a client's portfolio monthly, using an external third-party performance measurement service, against the client's investment objectives, as well as appropriate market indices.

CFG also provides investment advice without direct portfolio management and consults on securities-related matters; for example, in connection with estate planning, retirement planning, or any other investment or financial concern.

### ***Related Services***

CFG also provides related financial services and products to meet our clients' needs, including Insurance Management, Estate Management, Tax Planning, Business Planning, and other Family Office Services. Further information is available on our website or upon request to our office.

In all cases, where CFG does not have the necessary expertise in-house, we refer the client to selected advisers or service providers.

CFG is not responsible for monitoring the occurrence or status of class action securities litigation or other legal claims affecting investments of client accounts, nor participating in or taking any action with respect to any such proceedings. However, we will consult with clients on such matters as reasonably requested.

### **Assets Under Management**

As of December 31, 2013, CFG had total assets under management of \$184,769,232 consisting of \$155,097,861 on a discretionary basis and \$29,671,371 on a non-discretionary basis.

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

### **Investment Management Services**

Fees for CFG's investment management services are typically 1.00% of assets under management ("AUM") per annum, but may be individually negotiated if circumstances warrant. Solely at the discretion of the Chief Investment Officer, smaller accounts may be invested in Schwab MarketTrack Funds. For those accounts, CFG will reduce its fee to .40% of AUM. CFG will also reduce its fee to .40% of AUM for assets invested in individual municipal bonds managed by a third-party investment adviser in a separately managed account. Third-party advisers with whom CFG client assets are invested also charge fees, which may include a component that is based on the investment performance of the account. CFG's fees are not reduced by the amount of fees payable to third-party advisers.

CFG's investment management fees are payable monthly in arrears at the beginning of the following month and are deducted directly from the client's account upon CFG's notification to the custodian.

Mutual funds and ETFs in which client assets are invested also charge management fees and incur expenses, and may impose initial or deferred sales charges, which are disclosed in the fund's prospectus or other offering document, which is available upon request. CFG's fees are not reduced by the amount of these fees, expenses or charges. CFG's fees are also exclusive of custodial fees, brokerage commissions and other transaction costs, which are incurred by the client's account. Please see "Brokerage Practices" below for a description of the factors that CFG considers in selecting or recommending broker-dealers for client transactions. Clients may also incur various other types of charges imposed by custodians, brokers and other third parties, including but not limited to transfer taxes and wire and electronic fund transfer fees. CFG does not receive any load charges, 12b-1 or other account servicing fees from any fund or investment manager, nor any portion of any of the fees and charges referred to above. CFG has no financial interest in any third-party investment manager except as may be noted in this document.

A client may, of course, invest directly in mutual funds, ETFs or pooled investment funds without paying a management fee to CFG. However, in that case, the client would not receive CFG services, including

selection of funds or other investments intended to be appropriate for the client's investment objectives. Similar advisory services may be available from other registered investment advisers for lower fees.

A client may terminate the investment advisory contract, without penalty, immediately upon written notice. Termination of CFG services during a month will incur a pro-rated portion of fees for that month.

Insurance products provided by CFG affiliates may include an investment component. CFG personnel and an affiliated company receive additional compensation in connection with establishing insurance arrangements. This compensation and the conflicts of interest that may be involved are described in "Other Financial Industry Activities and Affiliations" below.

### **Financial Planning**

Fees for financial planning and investment consulting services, which are generally fixed in advance, are negotiated for the particular assignment based on complexity of the plan. Fees range from \$1,000.00 to \$75,000.00.

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

CFG 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).

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

CFG provides portfolio management services to individuals, pension and profit-sharing plans, charitable institutions, foundations and endowments, corporations and other business entities. CFG requires a minimum portfolio of \$250,000; however, exceptions may be made at CFG's discretion.

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

In evaluating investments for clients' accounts, CFG primarily utilizes the fundamental method of security analysis. This method relies on financial and economic data in evaluating the liquidity, solvency, efficiency and the potential benefits of a company or groups of companies comprising an industry, sector, or asset class. Typical data used in this method comes from sources such as financial newspapers and magazines, inspections of corporate activities, research materials prepared by third parties, corporate rating services, annual reports, prospectuses, SEC filings, company press releases, Bloomberg, etc. A material risk to the fundamental method of security analysis is any given market can over- or under-value a security or group of securities as compared to its perceived fundamental value. Additionally, significant due diligence by different parties can lead to differing opinions on the fundamental value of a security or group of securities.

We do not have a fixed list of potential investments, nor do we set a minimum or maximum on the number of securities that may be held in any client's portfolio.

Our selection process for mutual funds and ETFs involves a detailed examination, including the following processes. These are also used for other investments and for evaluating third-party investment advisers to the extent applicable in any case.

We perform a quantitative analysis of the particular fund or other investment, analyzing the total return during applicable individual and rolling historical periods, its index-relative performance measures, up

and down market capture and Alpha, its drawdowns and recovery periods, and its basic style qualifications and style-relative performance measures. We also review risk statistics including, for example, but not limited to, standard deviation, Sharpe, Sortino and Calmar Ratios. In assessing the fund's relative performance in its class, we consider whether the costs of active management are in line with its performance and/or the asset class and whether the assets under management are appropriate for the asset class. We also ask in what market environment(s) the product will have difficulty outperforming.

We perform a qualitative analysis of the investment adviser, addressing topics such as whether there is a coherent investment philosophy and an identifiable competitive advantage. We look for deep, stable and experienced management teams that have a high level of integrity, have weathered multiple market cycles, and have a stake in the success of the firm, preferably majority ownership that will ensure longevity. We consider the techniques used by management to identify and control overall portfolio risk. We assess what the factors leading to previous out-performance were and whether they are repeatable.

When giving investment advice to clients, CFG focuses on implementing strategies best suited to a clients' pre-determined investment profile. These may include but are not limited to long-term purchases (holding securities for at least one year), short-term purchases (selling securities within one year of purchase), short sales, margin transactions and option writing (which may include covered options, uncovered options or spreading strategies).

Investing in securities, no matter what strategy is used, involves a variety of types of risk of loss that clients should be prepared to bear. Some or all of the following apply to any investment:

- *Interest-Rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- *Market Risk:* The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- *Inflation Risk:* When any type of inflation is present, a dollar today will not buy as much as a dollar next year because purchasing power is eroding at the rate of inflation.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- *Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- *Business Risk:* These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

- *Liquidity Risk:* Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product.

## **Item 9: Disciplinary Information**

We are required to disclose any legal or disciplinary events that would be material to clients' evaluation of CFG or the integrity of CFG's management. CFG is not aware of any events of this nature.

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

### **Insurance Activities**

The principal duties of John D. Williams, our President and CEO, involve insurance planning and sales through an affiliate of CFG, Capital Formation Insurance Agency, Inc. ("CFIA"), which takes up approximately 75% of his time. Mr. Williams and other CFG personnel advise clients on designing their optimal insurance plans, which may include life, disability, and long-term care insurance. They then may assist the clients in obtaining insurance products of various insurance companies or the clients may obtain those products elsewhere.

Insurance products may include an investment component, so CFIA offers them through a registered broker, ValMark Securities, Inc. ("ValMark"). Mr. Williams and other employees are registered representatives of ValMark for the sale of variable life and annuity products, but CFG does not place any brokerage business through ValMark. When our clients purchase insurance products through us, CFIA receives commissions (which may include both initial and continuing payments) based on the size and nature of the respective policies, either through ValMark or directly from the carrier.

Because CFIA receives commissions based on the size and nature of the policies sold to our clients, there is a conflict between our clients' interests and ours, since we have an incentive to recommend policies based on the compensation we receive rather than the client's needs. We disclose this situation to each client to whom we offer life insurance products, and clients are under no obligation to accept or implement these recommendations through CFIA.

### **Relationships with Other Advisers and Financial Industry Participants**

As discussed above, CFG may engage third-party investment advisers to manage portions of clients' investment management accounts. CFG receives no compensation directly or indirectly from any such other investment adviser.

CFG may recommend that certain clients consider an investment in The Gardenia Relative Value Fund LLC, which offers a long-short investment strategy, if appropriate for their overall portfolio allocation. Any such recommendation may involve a conflict of interest since Thomas F. Troy, a shareholder of CFG, also owns a minority ownership interest in Gardenia Management Company, which manages the Gardenia Fund and receives compensation based in part on the amount of assets invested in the fund. However, CFG is not compensated directly or indirectly by the Gardenia Fund or any of its managers for recommendations or otherwise. There are many other options for a client that employs this same strategy.

Please also see the discussion of referrals to The Gardenia Relative Value Fund, LLC in the next section.



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

CFG seeks to foster a reputation for openness, integrity, honesty, and trust with the highest standards of professionalism. To further this goal, CFG has adopted a Code of Ethics, which sets out the standards of business conduct that we require of our personnel, reflecting our and their fiduciary obligations and requiring our personnel to comply with applicable federal securities laws. The Code includes an Insider Trading Policy designed to deter the misuse of material non-public information and other procedures intended to avoid conflicts of interest between clients and CFG personnel in connection with personal securities transactions. Advisory personnel of CFG are required to disclose personal securities transactions to the firm. CFG will provide a copy of its Code of Ethics to any client or prospective client upon request.

CFG and its related persons may buy or sell for their own account securities that the firm recommends or purchases or sells for client accounts. CFG and its related persons may also take investment actions for their own or client accounts that differ from actions taken or recommendations made for other clients as a result of different or potentially different circumstances, strategies, or goals. However, as a fiduciary to our clients, we seek to place client interests first. In order to comply with our legal and fiduciary duties and to avoid conflicts of interest, it is CFG's policy that personnel must comply with applicable federal and state law and that neither the firm nor any related person may use confidential information about client accounts in making personal transactions, take personal advantage of investment opportunities that properly belong to clients, or act on the basis of material, nonpublic (inside) information about the issuer of a security in taking investment action for either client or personal accounts, even if that would benefit the account.

In general, with respect to relatively liquid securities (that is, securities that are widely held and that trade in institutional markets), the firm and its related parties may trade in the same securities contemporaneously with directing trades on behalf of client accounts. Considering the types and amount of securities that CFG manages, we do not believe that any such trading would have any appreciable impact upon the prices of such securities. In those rare cases where the security being traded for a client account is considered illiquid, all client purchases and sales will be executed before any transactions in the same security for the account of CFG or any of its related parties.

CFG may recommend that certain clients consider an investment in The Gardenia Relative Value Fund LLC, which offers a long-short investment strategy, if appropriate for their overall portfolio allocation. Any such recommendation may involve a conflict of interest since Thomas F. Troy, a shareholder of CFG, also owns a minority ownership interest in Gardenia Management Company, which manages the Gardenia Fund and receives compensation based in part on the amount of assets invested in the fund. However, CFG is not compensated directly or indirectly by the Gardenia Fund or any of its managers for recommendations or otherwise. There are many other options for a client that employs this same strategy.

In the event that there is a conflict of interest with a transaction that is offered to a client, a written disclosure indicating involvement or possible conflict will be provided to the client for acknowledgement.

Please refer to "Other Financial Industry Activities and Affiliations" above, which describes the commissions payable to CFIA with respect to sales of insurance products to CFG clients.

## **Item 12: Brokerage Practices**

### **Selection of Broker-Dealers**

CFG may have discretion to select broker-dealers for managed accounts or clients may direct us to execute all trades through their custodian or another particular broker. In the case of transactions in mutual funds, the variables we take into account relate solely to the charges imposed by the custodian or other broker under consideration, since the pricing is fixed by the fund and execution is directly with the fund. Where we have discretion for transactions in ETFs or individual securities, we select broker-dealers that will provide the best execution considering a variety of factors including the overall cost of a trade: that is, net price paid or received, including commissions, custodial charges (including extra charges the custodian may impose for executing a transaction through an unaffiliated broker), and any other transaction costs. Other factors are always considered in any trading relationship, including the broker-dealer's quality of execution, accurate and timely execution, clearance and error dispute resolution, reputation, financial strength, reliability and stability.

### **Soft Dollars**

CFG engages in no soft dollar transactions at this time and receives no benefit from client brokerage.

### **Directed Brokerage**

Clients entering into an advisory relationship with us may already have a relationship with a broker-dealer, e.g., their custodian, and wish to instruct the firm to execute transactions through that broker-dealer. If we accept such direction, the client is retaining some of the discretion it would otherwise have conveyed to us to select broker-dealers, and it is the client's responsibility to satisfy him or herself about the adequacy of these arrangements. Any such client direction will be subject to the considerations described here, irrespective of any written or oral procedures we may agree to with the client. Clients who direct us to use a particular broker may not be able to participate in aggregated trades, as described below, unless we are executing those trades through the directed broker.

If a client directs the use of a particular broker, there may be differences between the brokerage commissions charged to the account of the client that directed us to use that broker and the accounts of those clients that did not, even for trades executed through the same broker. Consequently, if a client restricts CFG's ability to choose broker-dealers, it may well impair our ability to obtain best execution for that client and the client may pay higher costs than otherwise.

### **Block Trading**

CFG may aggregate orders to buy or sell the same security for multiple accounts (called "block trading"). Block trading may allow the firm to execute equity trades in a more timely and equitable manner. Each account that participates in an aggregated order generally receives the weighted average share price for all transactions in a particular security effected to fill such orders on a given business day. Partially filled orders would generally be allocated pro rata among the participating accounts. Exceptions may be made in good faith compliance with the firm's allocation policy, provided that no account is systematically disadvantaged thereby. CFG always aggregates trades when possible but market conditions, new client accounts and other factors may limit our ability to aggregate.

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

Investment advisory accounts are continuously monitored by the Chief Investment Officer and his Designates. CFG personnel attempt to hold formal reviews with clients annually, at minimum, to review accounts and other relevant economic and market information and to discuss and determine asset allocation, but formal reviews occur as often or as little as possible, according to client direction. We semi-annually rebalance our portfolios to individual client investment targets, but extreme market conditions can force rebalancing of the entire portfolio, or a given asset class, at any time.

CFG provides clients with monthly account investment performance reports, including a comparison to appropriate market indices, electronically or by printed copy, per client discretion. Each client's custodian provides monthly investment holdings, electronically or by printed copy, per client discretion. Information on client assets and holdings are available continuously through the custodian(s) website. Also included in the reports are transaction schedules and account appraisals. More frequent contacts are made in writing and by telephone where circumstances warrant. CFG also provides quarterly market newsletters delivered electronically or by printed copy, per client discretion.

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

CFG does not directly or indirectly compensate any person for client referrals.

Please see the discussion of referrals to The Gardenia Relative Value Fund, LLC in "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above.

### **Item 15: Custody**

Clients should receive, at least quarterly, statements from the broker-dealer, bank or other qualified custodian that holds and maintains their investment assets. CFG urges clients to carefully review such statements and compare such official custodial statements to the account statements that we may provide to our clients. (Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.)

### **Item 16: Investment Discretion**

When CFG has discretionary management authority for client portfolios, we select the securities to be bought or sold and the amounts, and make other investment decisions, without consulting the client beforehand. In addition to our Investment Advisory Contract, clients typically sign limited powers of attorney granting this authority, which are provided to the custodian(s) of the clients' assets and other service providers. At any time, we may agree with the client to limitations on our discretionary authority as to the type or amount of securities to be bought and sold, the credit quality of securities purchased, and other relevant factors.

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

Unless directed otherwise by the client, CFG, as a matter of firm policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interest of the clients. CFG maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting. The Chief Compliance Officer or his Designees has the responsibility for the

implementation and monitoring of the firm's proxy voting policy, practices, disclosures and record keeping. CFG's proxy voting procedure include the following:

### **Voting Procedures**

All employees will forward any proxy materials received on behalf of clients to the Chief Investment Officer or his Designees; the Chief Investment Officer or his Designees will determine which client accounts hold the security to which the proxy relates.

Absent material conflicts, the Chief Investment Officer or his Designees will determine how CFG should vote the proxy in accordance with applicable voting guidelines, complete the proxy and vote the proxy in a timely and appropriate manner.

### **Voting Guidelines**

In the absence of specific voting guidelines from the client, CFG will vote proxies in the best interests of the clients. Our policy is to vote all proxies from a specific issuer the same way for each client, absent qualifying restrictions from the client.

Clients are permitted to place reasonable restrictions on CFG's voting authority in the same manner that they may place such restrictions on the actual selection of account securities.

CFG will generally vote in favor of routine corporate housekeeping proposals such as the election of directors and selection of auditors absent conflicts of interests raised by auditor's non-audit services. We will generally vote against proposals that cause board members to become entrenched or cause unequal voting rights.

In reviewing proposals, CFG will further consider the opinion of management, the effect on management, the effect on shareholder value and the issuer's business practices.

Controversial proposals will be reviewed on a case-by-case basis by CFG. Where a vote involves a social responsibility issue and CFG has no indication from the client of his or her opinion on the issue, it will not assume that the social responsibility motive should be considered equal or superior to the profit-making motive. CFG may determine that voting any particular proxy is not in a client's best interest.

### **Conflicts of Interest**

Although material conflicts with CFG's interests on proxy matters are unlikely, if any is identified, it will be disclosed to the client with the request that the client provide voting direction. If the client is unable to direct the vote, we would suggest that an independent third party be retained at the client's expense to determine how the proxy should be voted.

In any case where CFG does not have proxy voting authority, the client should receive proxy materials directly from the custodian (or, if the client is a shareholder of record, the issuer's transfer agent). In those cases, we will make reasonable efforts to assist clients with typical voting decisions upon request.

Clients may obtain a copy of the firm's complete proxy voting policy and procedures, or information on how proxies for their shares were voted, upon request.

### **Item 18: Financial Information**

We are not aware of any financial condition that is reasonably likely to impair our ability to meet our contractual and fiduciary commitments to our clients.