

Christopher D. Croft, Inc.

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Form ADV, Part 2

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This brochure provides information about the qualifications and business practices of Christopher D. Croft, Inc. If you have any questions about the contents of this brochure, please contact us at (650) 326-9160 or ccroft7@comcast.net . The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Christopher D. Croft, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

There have been no material changes to this brochure (Form ADV, Part 2) since the last update in March, 2011.

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ADVISORY BUSINESS

Description of Firm

Christopher D. Croft, Inc. was founded in 1987 to provide individuals with the opportunity for a **long-term relationship** to assist them with the management of their financial resources.

Located in Palo Alto, California, we serve a distinguished and diverse clientele worldwide. The firm is registered with the Securities and Exchange Commission as an investment adviser. (Note: such registration does not imply a certain level of skill or training.)

Christopher D. Croft is the sole owner of the firm, and its only employee as well. Here is relevant information on Mr. Croft:

born: 1946

education: 1968, University of Hawaii, BA

1973, Hastings College of The Law, University of California, JD

1980, Graduate School of Business Administration, Harvard University, MBA

Mr. Croft is a founder and director of the firm, and is its principal officer responsible for all client services and research. For the five year period immediately preceding the founding of the firm, Mr. Croft was a Financial Consultant for Bailard, Biehl & Kaiser, Inc.; from 1982 through 1986, Mr. Croft was an Executive Vice President and manager of Bailard, Biehl & Kaiser's Financial Advisory Division. Mr. Croft was Resident Counsel at First Hawaiian Bank (Honolulu, Hawaii) from 1973 to 1978.

Type of Advisory Services Offered

Christopher D. Croft, Inc. furnishes investment supervisory and management services to its clients, taking into account each client's relevant financial circumstances, including, but not limited to, cash flow needs, marginal income tax rate, investment objectives, and risk tolerance. These services are provided on a discretionary basis, with the firm having authority to buy and sell securities on its clients' behalf. The firm diversifies across a number of different asset classes, which may have varying degrees of correlation with each other, in order to reduce overall portfolio volatility. The firm employs an asset allocation process to determine the appropriate weightings for each class for each client.

At the onset of client relationships, the client and the firm discuss and complete an Investment Policy Statement (IPS), which establishes guidelines for the management of the client's portfolio. The IPS addresses the client's risk tolerance, cash flow needs, expectations, among other items. The IPS also allows the client to describe any restrictions they would like to impose re security selection and the management of the portfolio. As disclosed in the IPS, the firm does not buy tobacco or gambling stocks in client portfolios.

The firm may also furnish investment advice through consultations with clients; these reviews are initiated by clients and may cover broader financial planning issues in addition to investments. The firm charges a maximum rate of \$500.00 per hour for these reviews and consultations. Fees are usually billed upon completion of the engagement, and a deposit may be required in some situations.

The firm does not participate in wrap fee programs.

Client Assets Under Management

Client assets under management, as of September 30, 2012, were \$120,336,900. All portfolios are managed on a discretionary basis. There are generally no limitations on such authority.

FEES AND COMPENSATION

Professional financial advisors may be compensated in three ways: commissions from the sale of products, fees, or a combination of the two.

We believe that we can do the best job for you when our interest is most closely aligned with yours. To ensure our objectivity and loyalty, the only compensation we accept is a fee for our time and advice. We will not accept any commissions or referral fees, so that you can be assured that we are working objectively on your behalf. When we provide financial planning services on a consulting basis, hourly fees are charged for the time spent. We will provide you with an estimate of the time required to respond to your needs and the cost of the financial plan at the conclusion of the initial consultation. Our hourly rate is \$500.00.

Fee schedule: Portfolio management fees are charged based upon the net asset value of the portfolio on the first day of each quarter of management, payable in advance for each quarter, at the annual rate of 1.0% of the first \$2,000,000 of managed assets, 3/4 of 1% of managed assets over \$2,000,000 and less than \$5,000,000, and 1/2 of 1% of managed assets \$5,000,000 and over. A minimum annual fee of \$10,000 may be charged. Any fees charged by the firm are not inclusive of any fees charged by mutual funds held or commissions charged by any brokerage firms or custodians.

In determining the net asset value of the portfolio, the following guidelines will be used: (1) for marketable securities, the current price will be used, (2) for securities for which no active market exists (such as real estate limited partnerships), information deemed in good faith to be relevant will be used to determine the value thereof (in the absence of readily determinable value, such securities will be valued at purchase price), and (3) cash will be valued at its dollar value.

To the extent that mutual funds are used in client portfolios, clients may be paying management fees both to the mutual fund managers as well as the firm. Mutual fund fees will be disclosed in their respective prospectuses.

For most clients, fees are deducted directly from their respective portfolios, pursuant to their authorization on the custodial brokerage account application. Itemized client invoices are uploaded directly to the custodian for payment, and a copy of the invoice is provided to the client. The remaining clients are billed directly for fees incurred. The client may select either method; in either case, the client will be billed quarterly, at the beginning of the quarter.

Clients may incur other fees, including, but not limited to, brokerage fees and other transaction costs. The firm does NOT charge performance-based fees. Fees are not negotiable.

The firm's services may be terminated by either party giving written notice to the other of such intent. Fees paid in advance will be prorated to the date of termination specified, and any unearned portion will be refunded or credited against amounts due.

TYPES OF CLIENTS

The firm's clients include individuals and family groups. Among the types of accounts held by these clients are retirement accounts, including, but not limited to, pension and profit sharing accounts, and IRAs, and trusts and estates. Additionally, the firm currently has one charitable organization as a client.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

The firm uses both qualitative and quantitative methods to form judgments regarding broad market trends and macro-economic conditions. The firm employs a "top-down" approach to determine which markets to participate in, and to what extent, over a given period of time. The firm follows a value-oriented approach, based on fundamental analysis, to determine the appropriate asset allocation and to select individual securities and mutual funds. The firm tends to use a longer-term investment horizon, and considers its orientation to be investing, rather than trading.

The firm employs both fundamental and technical analysis in its work.

A common theme in the firm's security selection is "growth at a reasonable price" (GARP). This is a variant of value investing which allows the firm to participate in the growth of the economy, but without paying a premium for doing so. This applies both to the selection of individual equities as well as the selection of mutual funds or ETFs in the growth/equity portions of client portfolios. We believe that by employing this, and other value methodologies, downside risk

may be reduced for client portfolios over time, although there are no guarantees that this may be the case.

Our goal is to achieve **superior returns** with the **least exposure to risk** over time. Risk, or portfolio volatility, is reduced by **diversification**. Superior returns may be achieved by overweighting those areas expected to perform well. No guarantees are made, expressly or implied; all investments entail some risk.

There are many kinds of risks that investment portfolios or programs might be exposed to. These include inflation, deflation, credit risk, market risk, systemic risk, currency risk, and political risk, for example. We believe that by appropriate diversification, these risks may be reduced, but not necessarily eliminated altogether. For example, bonds are notoriously vulnerable to inflation risk. If bonds comprise a portion of a portfolio, making it subject to the risk of inflation, this risk may be reduced by also including in the portfolio asset classes that tend to benefit from the risk of inflation, such as natural resources and real estate. Each individual asset class that the firm uses is exposed to its own particular set of risks. However, by diversifying the portfolio over a number of uncorrelated asset classes, or asset classes with low correlations with each other, the risk to the overall portfolio may be reduced.

Diversification is achieved by participating in seven asset classes: cash equivalents, fixed income, US stocks, international securities, foreign bonds, natural resources, and real estate. These classes have been chosen because they offer different risk exposures and opportunities for gain. The proportion that each asset class has in the portfolio is derived from an asset allocation process that attempts to respond to and anticipate changes in the economic environment, to exploit perceived opportunities and protect against perceived risks.

Our primary implementation vehicles are individual securities, no-load mutual funds and exchange traded funds (ETFs). We typically use individual securities in the US equity and bond markets and no-load mutual funds and ETFs in the other asset classes. Given the special expertise required in international securities, natural resources and real estate, mutual funds and ETFs are desirable for the broad diversification they afford the risk-averse investor, and the additional benefits of liquidity and professional management.

Our investment objectives are positive returns each year, positive real returns (i.e., after taxes and inflation), and to perform as well as the stock market over time, but with much less volatility. Although there are no guarantees, we believe that these objectives are reasonable and realistic, given the protection afforded by diversification and the opportunity for superior returns provided by the dynamic asset allocation process we employ, and the selection of attractively priced investment vehicles.

Each client's portfolio is **custom-tailored** to reflect the individual investor's risk tolerance, marginal tax bracket, other assets, liquidity and cash-flow needs.

DISCIPLINARY INFORMATION

There are no legal or disciplinary events outstanding involving the firm nor any of its employees.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither the firm, nor any of its employees, has any other financial industry activities nor affiliations. Neither the firm, nor any of its employees, is engaged, actively or inactively, in any other business.

From time-to-time, CDC may refer some of its clients, who may be in need of insurance services, to an insurance brokerage, whose principals are clients of the firm. Additionally, CDC may refer some of its clients, who may be in need of legal representation or services, to attorneys who are clients of the firm.

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

Code of Ethics

The firm has adopted a rigorous Code of Ethics, which all employees of the firm must follow. It addresses the following areas: Guiding Principles, Standards of Conduct, Compliance with Laws and Regulations, Conflicts of Interest, Insider Trading, Protection of Material Non-Public Information, and Personal Securities Trading. Upon request, the firm will provide a copy of its Code of Ethics to any client or prospective client.

Participation or Interest in Client Transactions

As a general rule, neither the firm nor any of its employees (or related persons) participates nor has an interest in any client transactions. More specifically, neither the firm nor any of its employees recommends to clients, or buys for client accounts, securities in which they (or related persons) have a material financial interest.

Personal Trading

Employees of the firm may buy or sell securities recommended for client accounts. Trading rules have been established to prevent conflicts of interest:

1. Generally, no employee may purchase a security until all client accounts for which the security is appropriate at that time have had an opportunity to purchase the issue.

- Security positions may be accumulated over time in particular accounts. Generally, employee may not buy until the particular security purchases have been completed for all appropriate client accounts. If unique account factors dictate, it is possible that a purchase of a particular issue may be made in a client account after an employee has purchased the same issue. Relevant factors would include the following: additional funds added to the client account, change in asset allocation, sale of other equities in the same asset class, drop in value for the subject security. Such factors may also create a situation where an account which was precluded from participating in the purchase of a particular security before an employee purchase would be able to participate after such employee purchase.
 - 2. An employee may sell securities only after all client sell orders have been given to the appropriate brokers.
- These rules only affect transactions in individual equities; they do not apply to mutual fund or fixed income transactions.

To ensure compliance with the foregoing:

1. Employees must keep records of their personal securities transactions, and make them available for periodic review by Mr. Croft no less frequently than quarterly.
2. Mr. Croft will review employee securities transactions at least once each quarter.

Principals of the firm may participate in limited investment opportunities along with clients. Moreover, principals of the firm may participate in opportunities which may be considered inappropriate for clients, including, but not limited to, private placements in start-ups.

BROKERAGE PRACTICES

In selecting a broker or dealer for any transaction or series of transactions, the firm may consider a number of factors, including, but not limited to, net price, reputation, financial strength and stability, efficiency of execution and error resolution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, order of call, offering to the firm of complete on-line computer access to data regarding clients' accounts, access to all relevant markets, and other matters involved in the receipt of brokerage services generally. In no event shall the firm be under any duty to obtain lowest commission or best net price for the account on any particular transaction, nor is the firm under any duty to execute any order in a fashion either preferential to one account relative to other like accounts managed by the firm or otherwise materially adverse to such other accounts. The firm may effect securities transactions which cause an account to pay an amount of commission in excess of the amount of commission another broker-dealer would have charged; provided, however, that the firm determines in good faith that such amount of commission is reasonable in relation to the value of such brokerage, research, and other services provided by such broker-dealer, viewed in terms of either the specific transaction or the firm's overall responsibilities to the portfolios over which the firm exercises investment authority.

The receipt of information from any broker or dealer executing transactions for the firm will not result in a reduction of the firms' customary and normal research activities, and the value of any such information received from outside services is, in the view of the firm, indeterminable. Any information obtained by the firm from brokers or dealers as a consequence of the placement of brokerage business for certain clients may be used by the firm for the benefit of all of its clients.

The firm may, in some instances, trade in securities which are not listed on a national securities exchange, but which are traded in the over-the-counter (OTC) market.

The firm tends to use Charles Schwab & Co. as a custodian and broker for most client portfolios, given the criteria described above. In some cases, clients have directed the firm to use specific custodians and/or brokers, and the firm may follow such direction even if said custodian and/or broker may not be the most competitive or offer the best service, in the view of the firm.

Firm may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts. Schwab provides the firm with access to its institutional trading and operations services, which are not typically available to Schwab retail investors. These services are generally available to independent investment advisors at no charge to them so long as a total of at least \$10 million of the advisor's clients' account assets are maintained at Schwab Institutional. Schwab's services include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab also makes available to the firm other products and services that benefit the firm but may not benefit its clients' accounts. Some of these products and services assist the firm in managing and administering client accounts. These include software and other technology that provide access to client account data (such as trade confirmation and account statements), facilitate trade execution, provide research, pricing information and other market data, facilitate payment of manager's fees from its clients' accounts, and assist with back-office support, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of the firm's clients, including accounts not maintained at Schwab. Schwab may also provide the firm with other services intended to help the firm manage and further develop its business enterprise. These services may include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services to the firm by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to the firm. The availability to the firm of the foregoing products and services is not contingent upon the firm committing to Schwab any specific amount of business.

The firm does not bunch client trades.

Because we trade almost exclusively with Schwab, we have no brokerage allocation process. We trade outside of Schwab occasionally to buy municipal and corporate bonds.

Where accounts are in custody outside of Schwab, we trade through the custodian.

No soft dollar arrangements are involved.

The firm receives no client referrals from firms with whom it does brokerage business.

REVIEW OF ACCOUNTS

The firm provides clients with quarterly reports on portfolio performance and activity, and meets with most clients on a quarterly basis. The firm prepares and distributes to clients frequent newsletters and market updates which review the current economic and market environment and includes the firm's view on how this context affects client portfolios.

Christopher D. Croft is the President of the firm and its sole employee. He is responsible for reviewing all accounts. Each account is reviewed at least once each quarter to ensure conformity with the firm's strategy and client needs. During each review, account positions are reconciled against asset allocation targets and any other guidelines for that account. Securities are purchased or sold, as necessary, to bring the account into conformity with the guidelines established for the account. During the review, account transactions are monitored and positions are reconciled against custodian's statements for the account. In addition to the regular review described above, accounts may be reviewed more frequently in response to changing client needs or changes in the economic or political environment. Independently of these reviews, individual securities may be sold for all relevant accounts whenever these securities attain full valuation, given Mr. Croft's analysis.

Each client receives a set of portfolio reports each quarter. These reports include a summary of portfolio positions, a schedule of realized gains and losses, a transactions journal, a schedule of income received, and a series of portfolio performance reports. These reports provide the client with timely and accurate information regarding specific positions, overall diversification, and portfolio activity. Mr. Croft presents these reports to clients at meetings which are typically held quarterly for clients in the immediate area. Out-of-town clients have meetings with Mr. Croft less frequently. From time-to-time, clients receive a financial markets newsletter from Mr. Croft, wherein he presents an overview of the economy and markets and analyzes the context within which decisions are made for each portfolio. Clients are encouraged to call or email Mr. Croft whenever they have any questions regarding their specific portfolio or overall market conditions. Clients receive directly from the account custodian trade confirmations and monthly and annual statements.

CLIENT REFERRALS AND OTHER COMPENSATION

The firm has no arrangements wherein it rewards or compensates anyone for referring clients to the firm.

CUSTODY

Registrant has neither physical custody nor possession of any client accounts.

INVESTMENT DISCRETION

The firm provides discretionary portfolio management services for its clients, with the firm having authority to buy and sell securities on its clients' behalf. There are generally no limitations on such authority.

VOTING CLIENT SECURITIES

The firm does not accept the authority to vote client securities on behalf of clients. The firm is precluded from voting such proxies, and the voting of proxies remains the client's responsibility. Clients will receive proxies and other solicitations directly from their custodian and may contact the firm if they have questions about a particular solicitation.

FINANCIAL INFORMATION

The firm does not require prepayment of client fees six months or more in advance; hence, no firm balance sheet is required to be provided in this report.

The firm does have discretionary authority re trading in client accounts; accordingly, it must disclose any financial condition that is reasonably likely to impair the firm's ability to meet contractual obligations to clients. At this time, the principal of the firm does not believe any such conditions exist.

Neither the firm, nor its principal, has been the subject of a bankruptcy petition at any time.