



CLASSIC CAPITAL

Classic Capital, Inc.
Securities and Exchange Commission
Form ADV Part 2 Brochure

March 15, 2015

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and

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This brochure provides information about the qualifications and business practices of Classic Capital, Inc. If you have any questions about the contents of this brochure, please contact Classic Capital, Inc. at (973) 379-6100. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state security authority. Additional information about Classic Capital, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov. Classic Capital, Inc. is a registered investment adviser; registration does not imply a certain level of skill or training.

Material Changes

There have been no material changes to Classic Capital's business since the previous Form ADV Part 2 Brochure of September 15, 2014.

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Advisory Business

Classic Capital, Inc. (Classic), an SEC-registered investment adviser, provides investment management to individuals, pension and profit sharing plans, trusts, estates, corporations, and partnerships, on a discretionary basis. Classic also may provide, at the request of the client, specialized financial problem-solving and/or analysis of complex financial issues. The firm was founded by Jay B. Leonard in March 1989, and Jay Leonard has served as its president and sole owner since then. Classic's only other principal executive officer is Andrew S. Leonard. Jay Leonard and Andrew Leonard determine all general investment policies.

Classic offers investment management and retirement planning to its clients. These services are tailored to each client's unique situation by considering their financial situation, investment objectives, and risk tolerance. By a client's request, Classic also may offer advice on other investments.

Clients may place restrictions on the types of investments in which Classic invests for their accounts.

Clients enter into an investment management agreement with Classic, and open an account with a mutual fund company, brokerage firm, bank, or other financial institution. That financial institution will serve as the custodian. Clients also may authorize Classic to act on their behalf in employer-sponsored plans, including 401(k)s and 403(b)s. For each of the designated accounts, clients give Classic a limited power of attorney to make transactions on their behalf.

As of December 31, 2014, Classic was managing assets of \$265,698,458.71 on a discretionary basis and \$0 on a non-discretionary basis.

Fees and Compensation

Classic is a fee-only adviser. In other words, Classic receives compensation exclusively from its clients, and does not receive commissions or referral fees from any product or service providers.

Classic charges a fee for its investment management services, calculated as a percentage of the client's assets under management. The annual management fee is 1% of the first \$2 million of assets under management, and 0.5% of assets under management above \$2 million. At the sole discretion of Classic, Classic may charge a management fee that is less than this annual rate.

Classic calculates the management fee using the value of the assets for some clients on June 30th and on December 31st of each year, or on March 31st and on September 30th for other clients. Clients pay management fees on a semi-annual (and in some instances, quarterly) basis in advance for the upcoming billing period.

For example, Classic bills a fee of 0.5% of the first \$2 million of assets and a fee of 0.25% of amounts over \$2 million as of December 31 (on or after each January 2 for the period January 1 through June 30), and a fee of 0.5% of the first \$2 million of assets and a fee of 0.25% of amounts over \$2 million as of June 30 (on or after each July 2 for the period July 1 through December 31).

Beginning January 1, 2015, Classic will bill clients quarterly, at the beginning of each calendar quarter, after valuing their assets on March 31st, June 30th, September 30th, and December 31st. This change will go into effect for the quarter ending March 31, 2015.

Classic does not bill for and does not require prepayment of management fees six months or more in advance. Classic bills new accounts and additional contributions on a pro-rated basis for the balance of a billing period.

Clients generally authorize the custodian to debit the management fee from the account and pay it to Classic. Occasionally, Classic will ask a client to pay the fee directly. Classic will send the client an invoice showing the amount of the fee, the value of the client's assets on which the invoice was based, and the specific manner in which the management fee was calculated. Classic sends this invoice to the client at the same time it sends the custodian instructions to debit the client's account. The custodian sends a statement to the client, at least quarterly, indicating any amounts disbursed from the account, including the amount of any management fee paid to Classic.

The term of Classic's investment management agreement is one year, and it is renewed automatically each year. The client or Classic may terminate the agreement at any time, for any reason, with written notice of three business days. When Classic receives notice to terminate an agreement from a client, or Classic gives notice to the client that the agreement is being terminated, Classic will no longer engage in purchases or sales for the account, and will have no responsibility with respect to the assets in the account. If an agreement is terminated, the client is entitled to a pro-rated refund of the unused portion of the prepaid management fee. Classic will send refunds, by check, to the client within 30 business days of the termination date. If a client withdraws funds from an account, but does not terminate the agreement, the client is not entitled to a refund.

Because Classic invests client assets in mutual funds, clients pay fees to both Classic and the mutual funds' advisers. The mutual fund fees and expenses are described in the prospectuses of the funds. Although the fees paid to the mutual funds' advisers are paid through the mutual funds themselves, the costs are ultimately borne by the shareholders, including Classic's clients. Classic generally selects mutual funds with low fees and expenses. Clients also will pay occasional transaction fees and may pay other fees to a custodian. (See the Brokerage Practices section of this brochure for more detail.)

Performance Based Fees and Side-by-Side Management

Classic and its advisers do not charge any performance-based fees, that is, fees based on a share of capital gains on or capital appreciation of clients' assets.

Classic does not do any Side-by-Side Management. Side-by-Side Management refers to managing some accounts that are charged a performance-based fee, and others that are charged an asset-based fee.

Types of Clients

Classic manages assets for individuals, pension and profit sharing plans, trusts, estates, corporations, and partnerships. Classic requires a minimum dollar value of assets, currently \$1 million, for a new client. This minimum may vary, based upon the complexity of the client's account.

Methods of Analysis, Investment Strategies and Risk of Loss

Classic starts the investment process for each client by discussing the client's investment objectives, time frame for investing, risk tolerance, and overall financial needs and goals. These issues are factored into investment decisions made for the client.

When constructing portfolios, Classic uses Modern Portfolio Theory, which explains how investors can structure their investments in an attempt to optimize their portfolios. An optimal portfolio is one that is expected to produce the highest return for a given level of risk, or the lowest risk for a given level of return.

Classic relies on the Efficient Market Hypothesis, which explains that market prices incorporate all relevant information. As a result, Classic invests primarily in “passive” mutual funds, in an attempt to capture the historic returns of an entire asset class, rather than predict which securities within that asset class will outperform.

Classic employs the Three-Factor Model, which has shown that small company stocks and value stocks have historically outperformed large company stocks and growth stocks. Therefore, Classic over-weights these market segments in clients’ portfolios relative to their actual percentages within the total market.

Classic believes that portfolios must be monitored regularly, and rebalanced when allocations have changed by enough to significantly affect the targeted risk exposure of that portfolio. Classic developed and uses a proprietary portfolio rebalancing algorithm that indicates when a specific fund has deviated from its targeted allocation within the overall portfolio, and signals when funds should be bought or sold to bring the portfolio back towards its targeted allocations.

Client portfolios remain invested in stock and bond market funds unless or until Classic’s principals’ judgment and/or risk assessment models indicate that risk of a major loss is high; then, in an effort to reduce the chance of a major loss, Classic may move some or all of a client’s money to a money market fund.

While Classic employs all of these investment methodologies in an attempt to optimize the risk-adjusted returns of client portfolios, risk can never be eliminated. Investing in securities, including mutual funds, always involves risk of loss which clients should expect to bear. Specifically, client portfolios are exposed to the following primary risks:

- **Market Risk** – Economic, political, and issuer-specific events may cause the value of securities to rise or fall.
- **Small Company Risk** – Securities of small companies are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price.
- **Foreign Securities and Currencies Risks** – Foreign securities prices may decline or fluctuate because of economic or political actions of foreign governments, and/or because of less regulated or less liquid securities markets. Investors holding these securities are also exposed to foreign currency risk (the possibility that foreign currency may fluctuate in value against the U.S. dollar).
- **Emerging Markets Risk** – Numerous emerging market countries have experienced serious economic and political problems. Stock markets in many emerging market countries are relatively small, expensive to trade and risky. Foreigners are sometimes limited in their ability to invest in, and withdraw assets from, these markets.
- **Credit Risk** – Credit risk is the risk that the issuer of a security may be unable to make interest payments and/or repay principal when due. A downgrade to an issuer’s credit rating or a perceived change in an issuer’s financial strength may affect a security’s value.
- **Interest Rate Risk** – Fixed income securities are subject to interest rate risk because the prices of fixed income securities tend to move in the opposite direction of interest rates. In general, fixed income securities with longer maturities are more sensitive to these price changes.

- **Income Risk** – Income risk is the potential for a decline in the fund’s income due to falling interest rates.
- **Inflation Risk** – Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

Disciplinary Information

There have been no criminal or civil investment-related actions against Classic Capital or any of its principals or employees, nor has it or any of its principals or employees been the subject of any violation of an investment-related statute or regulation. There also have been no administrative proceedings before the SEC or any other federal, state, or foreign regulatory authority causing Classic or any of its principals or employees to be denied authorization to act in any investment-related business or activity.

Other Financial Industry Activities and Affiliations

Classic is an independent investment advisory firm.

Classic is not a broker-dealer, futures commission merchant, commodity pool operator, or commodity trading adviser and there are no principals or employees who are registered representatives of any of these types of firms. Classic does not have any relationship or arrangements that could create a material conflict of interest for clients with any of the following: broker-dealer, municipal securities dealer, government securities dealer or broker, investment company or other pooled investment vehicle, other investment adviser or financial planner, futures commission merchant, commodity pool operator, or commodity trading adviser, banking or thrift institution, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, real estate broker or dealer, sponsor or syndicator of limited partnerships.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Classic Capital has a fiduciary duty to its clients, and this is the driving principle behind the firm’s Code of Ethics. As such, Classic’s employees are expected to act with competence, integrity, honesty and trust. Among other requirements, all employees must: place client interests ahead of Classic’s, avoid conflicts of interest, conduct personal trades in a manner which does not interfere with clients’ portfolio transactions, engage in personal investing that is in full compliance with Classic’s Code of Ethics, and avoid taking advantage of their position. Classic will provide any client or prospective client with a copy of its Code of Ethics, upon request.

If Classic ever recommends a security in which it, or its principals, or employees buy and/or sell for themselves, Classic will ensure that the price paid or received by its advisory clients for any investment shall not be affected by a buying or selling interest on the part of Classic or its principals or employees, or otherwise result in an inappropriate advantage to Classic or its principals or employees.

Brokerage Practices

In selecting broker-dealers and/or custodians to be used, Classic considers a number of factors. These include the custodian’s expertise, experience, reputation, and financial stability. Classic also considers the quality of

services and statements provided to the client and the adviser. Classic will consider whether there are a large number of mutual funds available through the custodian, and whether the custodian either charges no fees on client accounts, or that these fees are low and for reasonable purposes.

Currently, Fidelity Investments, a broker-dealer and mutual fund custodian, is the only firm recommended to clients for any brokerage services.

Clients may pay fees to Fidelity Investments or other custodians, such as a \$35 transaction fee for the purchase of certain mutual funds and \$15 for the sale of certain mutual funds. Classic does not receive any compensation or “soft dollar” benefits from any such fees. No one at Classic receives compensation for the sale of securities, mutual funds, or other investment products.

All client accounts are kept separate at Fidelity, and trades are conducted within each individual client’s accounts. Classic does not aggregate trades. As such, on those occasions when Fidelity charges a transaction fee for a specific security, it is a flat fee that is charged for every account that had a trade in that security. Fidelity does not reduce this fee if the same trade is conducted for every account managed by Classic.

Review of Accounts

Classic reviews all client accounts frequently, at a minimum of once per quarter and generally more often. A principal or a vice president of Classic conducts each portfolio review. Classic also reviews an account whenever there is a contribution or withdrawal, and whenever Classic’s computerized monitoring system indicates that the total value of a client’s stock market mutual funds has moved away by more than a pre-determined amount from its targeted percentage of the portfolio.

Classic provides two written reports to clients, both semi-annually. These are a Statement of Investment Management Fee and an Investment Summary. The Statement of Investment Management Fee shows the client how the fee was calculated, and on what date the fee was debited, if applicable. The Investment Summary includes all contributions and withdrawals, and profits or losses both since the last Investment Summary and since the inception of the client relationship.

The mutual fund company and/or other custodian also send the clients a confirmation of transactions, and a monthly or quarterly summary report of all transactions, holdings, contributions and withdrawals.

Client Referrals and Other Compensation

Classic occasionally compensates an unaffiliated third party for soliciting new clients. Compensation is typically paid as a percentage of the client’s fee. These arrangements do not increase the gross fee charged to the client and comply with all relevant federal and state laws, including Rule 206(4)-3 under the Investment Advisers Act of 1940. Any such arrangements are fully disclosed to the client and authorized in writing by the client.

Prior to establishing this type of arrangement, a prospective solicitor must hold any required state and/or federal license(s), and must sign a Solicitor’s Agreement with Classic, which is available to clients for review upon request.

Custody

Classic does not have physical custody of client funds or securities. Currently, the only custodians used for clients' accounts are Fidelity Investments, Vanguard, TIAA-CREF and those being used by clients' employers as part of employer-sponsored plans, such as 401(k) or 403(b) accounts. When a client wants Classic to manage an employer-sponsored plan, he or she gives Classic a limited power of attorney to make transactions on his or her behalf in those accounts.

Investment Discretion

Classic provides investment management services on a discretionary basis only. In other words, clients give Classic the authority to determine, without specific consent, the securities to be bought or sold, the amounts and timing of those transactions, and the broker-dealers or mutual fund custodians used to execute those trades. Clients may place restrictions on the types of investments in which Classic invests for their accounts.

Voting Client Securities

Classic does not exercise proxy voting authority over client securities. Additionally, Classic does not provide clients with advice on how they should vote their proxies. Clients receive their proxies and other solicitations directly from their custodian(s), and must decide on their own whether to respond and, if so, how to vote.

Financial Information

Classic does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.



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Brochure Supplement

The following Form ADV Part 2B Brochure Supplement covers all employees of Classic Capital, Inc. authorized to give investment advice to clients. Classic requires those involved in determining or giving investment advice to clients to hold a Master of Business Administration (MBA) degree. Those employees authorized to give investment advice to clients include:

Jay B. Leonard – *President, Chief Investment Officer*

Andrew S. Leonard – *Principal*

Nicole M. Gould – *Vice President*

Jay B. Leonard, President and Chief Investment Officer

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jleonard@classiccapital.net

Background and Business Experience

- **Born:** 1944
- **Education**
University of Chicago, MBA
Brooklyn College, BA
- **Professional Experience**
Jay Leonard founded Classic Capital in 1989. Previously, Jay was a vice president of Merrill Lynch from January 1974 – March 1989, where he was a securities analyst, futures specialist, and portfolio manager. Merrill Lynch was an investment banking and brokerage firm.
- **Professional Licenses and Designations**
FINRA Series 65: Uniform Investment Adviser Law Examination
Chartered Financial Analyst, a designation conferred in 1973 by the Institute of Chartered Financial Analysts, now known as CFA Institute, after completing the three required exams
- **Professional Organization Memberships**
CFA Institute, member
Former First Team member of *Institutional Investor* magazine's All-America Research Team

Disciplinary Information

Jay Leonard has not been the subject of any criminal or civil investment-related actions, or any violation of an investment-related statute or regulation. He also has not been the subject of any administrative proceedings before the SEC or any other federal, state, or foreign regulatory authority causing him to be denied authorization to act in any investment-related business or activity.

Other Business Activities

Jay Leonard is not actively engaged in any other investment-related business or occupation, other than as the president of Classic Capital.

Additional Compensation

Jay Leonard receives compensation only for providing advisory services for clients of Classic Capital, Inc.

Supervision

As president of Classic Capital, Jay Leonard supervises all employees.

Andrew S. Leonard, Principal
Classic Capital, Inc.
788 Morris Turnpike - Suite 200
Short Hills, NJ 07078
(973) 376-8644
aleonard@classiccapital.net

Background and Business Experience

- **Born:** 1980
- **Education**
Harvard Business School, MBA
Emory University, BA
- **Professional Experience**
Andrew S. Leonard joined Classic Capital in July 2007, and is Classic's other principal executive officer. From July 2002 – July 2005, Andrew was a Senior Analyst for Analysis Group, Inc. an economic, financial, and business strategy consulting firm.
- **Professional Licenses and Designations**
FINRA Series 65: Uniform Investment Adviser Law Examination
Andrew Leonard is a CERTIFIED FINANCIAL PLANNERTM professional, a certification received after completing the education, exam, work experience, continuing education, and ethics requirements

Disciplinary Information

Andrew Leonard has not been the subject of any criminal or civil investment-related actions, or any violation of an investment-related statute or regulation. He also has not been the subject of any administrative proceedings before the SEC or any other federal, state, or foreign regulatory authority causing him to be denied authorization to act in any investment-related business or activity.

Other Business Activities

Andrew Leonard is not actively engaged in any other investment-related business or occupation, other than as a principal of Classic Capital.

Additional Compensation

Andrew Leonard receives compensation only for providing advisory services for clients of Classic Capital, Inc.

Supervision

Classic's president, Jay Leonard, supervises Andrew Leonard. Jay supervises the advice that Andrew provides to clients on an ongoing basis by reviewing his preparation for, performance during, and follow-up after client meetings and other communications. Jay also directs and supervises the investment research that Andrew conducts. Jay may be reached at (973) 379-6100.

Nicole M. Gould, Vice President

Classic Capital, Inc.
788 Morris Turnpike – Suite 200
Short Hills, NJ 07078
(973) 376-8744
ngould@classiccapital.net

Background and Business Experience

- **Born:** 1964
- **Education**
Fairleigh Dickenson University, certificate in financial planning
Columbia Business School, MBA
Tufts University, BA
- **Professional Experience**
Nicole Gould joined Classic Capital in July 2007. Most recently before joining Classic, Nicole was the Marketing Director for QSI Incorporated, a pharmaceutical marketing firm, from 1994 – 2000.
- **Professional Licenses and Designations**
FINRA Series 65: Uniform Investment Adviser Law Examination
Nicole Gould is a CERTIFIED FINANCIAL PLANNER[™] professional, a certification received after completing the education, exam, work experience, continuing education, and ethics requirements
- **Professional Organization Membership**
Financial Planning Association, member

Disciplinary Information

Nicole Gould has not been the subject of any criminal or civil investment-related actions, or any violation of an investment-related statute or regulation. She also has not been the subject of any administrative proceedings before the SEC or any other federal, state, or foreign regulatory authority causing her to be denied authorization to act in any investment-related business or activity.

Other Business Activities

Nicole Gould is not actively engaged in any other investment-related business or occupation, other than as a vice president of Classic Capital.

Additional Compensation

Nicole Gould receives compensation primarily for providing advisory services for clients of Classic Capital, Inc. In addition to her base salary, Classic may compensate Nicole for helping to acquire new clients.

Supervision

Classic's president, Jay Leonard, supervises Nicole Gould. Jay supervises the advice that Nicole provides to clients on an ongoing basis by reviewing her preparation for, performance during, and follow-up after client meetings and other communications. Jay also regularly supervises the transactions that Nicole performs in client accounts. Jay may be reached at (973) 379-6100.