

# Investment Advisor Brochure

## Form ADV Part 2A

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This brochure provides information about the qualifications and business practices of Millennium Investment Services for the use of clients and prospective clients. If you have any questions about the contents of this brochure, please contact us at (818) 902-5544 or via e-mail at [tony@minvs.com](mailto:tony@minvs.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority. Registration is mandatory for all persons meeting the definition of investment advisor and does not imply a certain level of skill or training.

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

***Material Changes***

No material changes to the business of Millennium Investment Services have taken place since our last annual update. Material changes to the ADV Brochure will be provided as a separate document to clients who have received previous versions of the brochure.

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## ***Advisory Business***

### **Advisory Firm**

Millennium Investment Services, (hereinafter MIS) has been providing investment advisory services since 1995. Anthony M. Reed is the founder and President and has been in the financial services industry since 1994.

### **Advisory Services**

MIS provides its services to a wide array of clients, including individuals, pension and profit sharing plans, trusts, estates and charitable organizations, and corporations. MIS is willing to manage advisory accounts on both a discretionary and non-discretionary basis. However, all assets under management at this time are done so on a discretionary basis. As of March 24, 2015, MIS has \$112,333,369 of assets under management.

Portfolios are designed for each client based on the client's own needs, circumstances, expectations and tolerance of risk. An in-person or telephone interview is conducted with each client to determine the client's individual circumstances, and to give the client the opportunity to impose reasonable restrictions on the management of the account. Clients have the ability to leave standing instructions with the IA Rep to refrain from investing in particular securities or types of securities, or invest in limited amounts of securities. It is the client's responsibility to notify the IA Rep at any time there are changes. Clients may call in at any time during normal business hours to discuss directly with the IA Rep about the client's account, financial situation, or investment needs. Clients will receive from the custodian/brokerage firm timely confirmations and at least quarterly statements containing a description of all transactions and all account activity. The client will retain rights of ownership of all securities and funds in the account to the same extent as if the client held the securities and funds outside the program. In addition to custodial statements, MIS sends detailed quarterly reports to the client.

Account supervision is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income). To achieve the client's stated investment goals and objectives, MIS will offer a mixture of equity and fixed income securities with varying risk tolerances to comprise a client's portfolio. Mutual funds, in either equities or fixed income securities, may also be utilized.

MIS formulates investment proposals for its clients that are consistent with the individual client's financial and tax status and risk/reward objectives. Planning may be comprehensive, or segmented and focus on investments, insurance, taxes, and/or estate plans.

For California residents: Subsection (j) of Rule 260.238, California Code of Regulations requires that all investment advisors disclose to their advisory clients that lower fees for comparable services may be available from other sources.

## ***Fees and Compensation***

The annual fee charged for investment supervisory services is calculated as follows, based on the market value of the assets in the client account as of the last business day of the applicable calendar quarter:

### **SHORT TERM / MONEY MARKET ACCOUNTS:**

Accounts less than \$1,000,000, the fee is 0.25%

Accounts greater than \$1,000,000, the fee is 0.20%

### **FIXED INCOME ACCOUNTS:**

Accounts less than \$500,000, the fee is 0.80%

Accounts greater than \$500,000 the fee is 0.50%

### **EQUITY ACCOUNTS:**

Accounts less than \$500,000, the fee is 1.25%

Accounts between \$500,000 and \$1,000,000, the fee is 1.00%

Accounts greater than \$1,000,000, the fee is 0.40% - 1.00%

The above fees are subject to an overriding minimum of \$2,000 for any full calendar year. A minimum account of \$500,000 is required. In certain circumstances, however, this account minimum may be negotiable, in which case an alternate fee structure will be mutually agreed upon.

When charging advisory fees for accounts invested in more than one general asset class (i.e. equities and fixed income), MIS may apply the fee schedule that corresponds with the asset class that has the biggest weighting in the client's portfolio, relative to all of the client's assets under management.

One or more of MIS' principal executive officers may act as investors in the general partner entities of limited investment partnerships or limited liability companies (LLC's). While these partnerships and LLC's are generally not recommended to advisory clients, MIS does not have a policy strictly prohibiting such recommendations.

Financial planning and consulting fees are charged on an hourly basis, ranging from \$150-\$250 per hour, depending on the nature and complexity of each client's circumstances. An estimate for total hours may be determined at the start of the advisory relationship and a fixed fee may be quoted. Financial planning fees are due and payable upon completion of the plan. Consulting fees are due and payable as incurred. These fees may be negotiable under certain circumstances.

Typically, the financial plan will be presented to the client within 90 days of the contract date, provided that all information needed to prepare the financial plan has been promptly provided by the client.

In certain circumstances, all fees may be negotiable.

The fee charged is calculated as described above and is not charged on the basis of a share of capital gains or capital appreciation of the funds or any portion of the funds of an advisory client (SEC Rule 205 (a) (1)).

A client agreement may be cancelled at any time, by either party, for any reason upon receipt of 30 days written notice. Upon termination of any account, any earned, unpaid fees will be due and payable.

All fees paid to MIS for investment advisory services are separate and distinct from the fees and expenses charged by mutual or other funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee and incentive allocation, other fund expenses, and a possible distribution fee. If a fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without the services of MIS. In that case, the client would not receive the services provided by MIS which are designed, among other things, to assist the client in determining which mutual funds are most appropriate to each client's financial conditions and objectives. Accordingly, the client should review both the fees charges by the funds and the fees charged by MIS to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services provided.

MIS invoices for its fees on a quarterly basis, and such fees are payable in arrears. The first payment is assessed and due at the end of the first calendar quarter and will be assessed pro-rata in the event the Agreement is executed at any time other than the first day of the current calendar quarter. Subsequent payments are due and will be assessed on the first day after the end of each calendar quarter based on the value of the account assets under supervision as of the close of business on the last business day of that quarter.

Payment of fees may be paid direct by the client, or the client may authorize the custodian holding client funds and securities to deduct MIS' advisory fees direct from the client account in accordance with statements prepared and submitted to the custodian by MIS. The custodian will provide periodic account statements to the client. Such statements will reflect all fee withdrawals by MIS. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Advisory services similar to those offered by this advisor may be found elsewhere at lower rates.

The Advisory Agreement contains a pre-dispute arbitration clause. Client understands that the agreement to arbitrate does not constitute a waiver of the right to seek a judicial forum where such a waiver would be void under the federal securities laws. Arbitration is final and binding on the parties.

## ***Performance-Based Fees And Side-By-Side Management***

MIS charges performance fees to portions of the portfolios of qualified clients. Through Schwab Institutional and other firms (Morgan Stanley, Credit Suisse and JP Morgan Chase), where a Prime Brokerage relationship has been established solely for the purpose of engaging in the transactions described here, MIS participates in Initial Public Offerings (IPO's) and Secondary Public Offerings (SPO's). MIS does not impose a minimum investment requirement for IPO's, but does recommend a minimum investment of \$50,000 for participation in SPO's. This is because the objective of the SPO program is to make frequent small percentage gains on short-term trades. The commissions charged by the brokerage firms related to these trades, while small, would represent too large a portion of the potential returns garnered by such trades under \$50,000.

MIS includes IPO's and SPO's in the portfolios of those clients that are interested in participating, and who meet the suitability requirements to enter into such transactions. MIS charges performance fees to those participating clients who also meet either the \$2 million in net worth, or the \$1 million in assets under management criteria, as set forth in Rule 205-3 of the Investment Advisors Act of 1940. In doing so, MIS continues to offer participation in these offerings to its clients that do not meet such criteria, and allocates shares in each offering on a non-discriminatory basis between those subject to a performance fee and those who are not.

A potential conflict of interest could arise related to an incentive to allocate offering shares to those clients who are subject to the performance fee over those that are not. This potential conflict is avoided as follows: All participating clients have a certain maximum dollar amount that they are willing to commit to any given offering. Based upon these maximums, we typically find that about 20% of requested shares come from accounts that are not subject to the fee. Thus, when we receive our share allocations, we try to make sure that roughly that same percentage of the shares received are given to non-performance fee accounts. In some instances, where share allocations are very small, it's not practical to follow this formula for allocation. As a result, certain times non-performance fee accounts get no allocation, and others they get 100% of the allocation. On the whole, however, great effort is made to ensure a proper, equitable, pro-rata allocation to accounts that are not subject to the performance fee.

Performance fees related to IPO/SPO trading are computed as follows:

Through November 30<sup>th</sup> of each year, the total amount of net realized gain dollars attributable to IPO and SPO trading for the previous 12-month period are computed for each applicable account. This amount is then multiplied by 20%. The resultant figure is then compared to the normal management fee charged by MIS for those assets during the same 12-month period. If the amount computed based upon the gains from such trading is greater than the normal management fee, the difference is charged to the client as a performance fee.

The "normal management fee charged by MIS for those assets" is computed by taking the standard investment level by each client in this program and multiplying it by the client's own, specific management fee percentage. For instance, Client A typically invests \$100,000 in these offerings. How much anyone can invest in any specific offering, however, is a function of the amount of shares MIS is allocated by the brokerage firms in the offering process. So, when MIS receives a full allocation from, say, Schwab (meaning an allocation of 100% of the shares MIS had requested), Client A's investment would be approximately \$100,000. When the allocation to MIS is something less than 100%, Client A's investment in that offering will be less than

\$100,000. Nevertheless, MIS will use the standard \$100,000 investment for that client to compute the “normal” annual fee. If the annual percentage fee for Client A were 1%, then the “normal management fee” would be  $\$100,000 \times 1\%$ , or \$1,000.

To conclude the example, if Client A made \$20,000 during those 12 months in net realized gains from such trading, 20% of that would be \$4,000. Thus, the performance fee charged by MIS would be \$4,000 less \$1,000, or \$3,000.

### ***Types of Clients***

MIS provides advisory services to a wide range of client types, such as individuals, pension and profit sharing plans, trusts, estates, and business entities.

Generally the minimum account size is \$500,000, subject to a minimum annual fee of \$2,000. The minimum fee could increase the maximum percentage rate paid on smaller accounts to more than the 1.25% annualized fee, as shown on the standard fee schedule above.

There is no minimum for clients solely retaining financial planning services.

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

In structuring investment portfolios, MIS focuses its attention on the allocation of assets among a variety of asset classes. Asset classes can be as general as cash, fixed-income and equities, then can be broken down into much smaller sectors of investment, such as domestic small growth equities or emerging market debt, etc.

MIS’ analysis includes the utilization of charting, fundamental, technical, and cyclical factors.

MIS’ core investment strategy is to utilize mutual funds, and occasionally individual fixed-income securities, in order to construct a well-diversified portfolio. For clients who express an interest in moving outside of that core strategy, MIS recommends two additional strategies. First is the participation in the IPO’s and SPO’s referred to above in the discussion of Performance Fees. Second is a strategy referred to as “covered call writing”.

Covered call writing is a risk-mitigation, hedging technique. Most strategies that utilize options involve a great deal of risk and speculation. What this strategy does is the opposite of that. Instead of just buying a stock and hoping it goes up, we’re both buying a stock and simultaneously selling a call option against it. By doing so, we are entering into a contractual obligation to sell our stock to the option buyer (the speculator) for a specified price during a specified period of time.

To use a hypothetical example, let’s say we buy IBM stock for \$100 a share and concurrently sell a call option that expires in one year, and that gives the buyer the right to buy our stock for that same \$100 price. To get us to agree to such an arrangement, he pays us \$10 a share right now. That money is ours to keep, and it means that our cost basis in the combined trades is \$90. A year from now, if the stock is anywhere above \$100 we can be sure that it will be called away at that price. We’re fine with that, because we would have made 11% on our investment



(100/90). Yes, we've limited our upside to 11%, but we would still make that same 11% if IBM had stayed at \$100. Furthermore, if IBM had declined to \$90, we would still be at break-even during a time that the stock had lost 10%.

This is not a loss prevention strategy, since the stock could decline below our breakeven price. If it were to do so, we would have to decide whether to a) sell the stock for a loss, b) keep the stock in the hope that it goes back up, or c) sell another call option against it, thereby reducing our cost basis further as we wait for the new option period to run its course.

While there is risk in all investments, some carry a greater degree of risk or higher costs. There is no guarantee that the investment strategy selected for the client will result in the client's goals being met, nor is there any guarantee of profit or protection from loss. For those investments sold by prospectus, clients should read the prospectus in full.

MIS is disclosing those risks and opportunities for our investment strategies or for particular types of securities used.

- Mutual funds offer a certain degree of investment protection, given the fact that they are pooled investments in a diversified group of securities. Having said that, though, mutual funds are not without risks. The underlying investments of a given fund, be they stocks or bonds, will always carry the potential for substantial market and/or interest rate risk. Thus, mutual fund investors should understand that the possibility of a substantial decline in value will always exist to some degree.
- Debt securities are subject to interest rate risk. In a rising interest rate environment, the value of existing debt securities will often decline. Debt securities with longer periods of time to maturity will typically be more negatively impacted by rising rates than those securities with shorter maturities.
- High yield securities are corporate debt securities rated below investment grade. MIS will never suggest the purchase of an individual fixed income security that is deemed below investment grade. However, MIS does recommend mutual funds that invest in these securities. Such securities are more impacted by changes in the economic environment than by changes in interest rates. Thus, in times of declining economic activity, there exists a greater risk of default with high yield securities. Even though default risk is somewhat mitigated by virtue of investing in a mutual fund, the fact remains that high yield mutual funds are exposed to substantial risk of loss in such economic periods.
- Investing in IPO's and SPO's carry special risks. In the case of an IPO, no previous public market has existed for the company doing the offering, so there is no way to know ahead of time how well the newly-traded stock of that company will be viewed in the marketplace. IPO's and SPO's also often have a substantially larger initial volume of trading than is normal, which can be a cause for greater volatility in the stock price. MIS' strategy is to obtain a significant amount of stock for each participating client in any given offering. It is also MIS' intention to hold the stock for a very short period of time (often a day or less). When such large amounts (in relative terms, in looking at each individual account) of stock are, in fact, obtained, there will always exist the possibility of a substantial loss in value for the client if the stock does not perform well (for whatever reason) following the offering.

- As discussed above, the covered call writing strategy is, at its core, a hedging strategy which looks to lessen the risks of equity ownership, the fact remains that it still represents the equity ownership of a company. While the call option proceeds may help to provide some downside protection, they do not prevent the possibility of a substantial decline in overall value, since if the stock price plummets the call proceeds received may only provide a small amount of cushion in offsetting a large loss of value in the stock.
- As a matter of practice, MIS does not engage in attempts to time short-term market movements.
- There are tax consequences for short-term trading wherein capital gains are taxed as ordinary income. MIS clients should be aware that most of the trading activity that occurs in both the IPO and SPO strategy, as well as the covered call writing strategy, involves transactions that are treated as ordinary income for tax purposes.

By its nature, financial planning looks to the long-term. After the client's short-term cash needs and emergency fund is evaluated, investment and insurance strategies are designed to help the client achieve his or her financial goals. Casualty insurance (e.g. homeowner's, auto, liability, etc.) is reviewed only at the client's request, and would be provided by an outside casualty firm.

### ***Disciplinary Information***

An investment advisor must disclose material facts about any legal or disciplinary event that is material to a client's evaluation of the advisory business or of the integrity of its management personnel. MIS does not have any disclosure items.

### ***Other Financial Industry Activities and Affiliations***

MIS has a division which operates under the dba TLR Insurance Services, and as such is registered as an insurance agency with the Department of Insurance in the State of California. In its capacity as an insurance agency, MIS can sell insurance products or services to both investment and non-investment clients. As a matter of practice, however, this is NOT a business that MIS is actively engaged in.

Some of the executive officers of MIS are CPA owners of Weiss Accountancy Corporation. The President of MIS spends all of his time providing investment advice. The other owners of MIS spend virtually all of their time on activities related to Weiss Accountancy Corporation.

Weiss Accountancy Corporation provides a full range of accounting services. Weiss may be recommended to an advisory client in need of accounting services. Accounting services provided by Weiss are separate and distinct from the advisory services provided by MIS, and are provided for separate and typical compensation. No MIS client is obligated to use Weiss for any accounting services.

One or more of MIS' principal executive officers may act as investors in general partner entities of limited investment partnerships or limited liability companies (LLC's), investing in real estate and other commercial ventures. These activities are entirely separate from the activities of MIS.

MIS does not manage or advise these entities in any way. In certain instances, however, investment management fees may be charged in connection with these limited partnership and LLC investments. As such, MIS is aware of the potential conflict of interest.

One of MIS' officers also has a broker dealer affiliation, acting as a registered representative of Cova Capital Partners (CCP), an NASD-registered broker dealer. In all cases, no more than a small percentage of the officer's time is spent acting in this capacity.

As a registered representative, he is able to effect securities transactions and will receive separate, yet customary, compensation for effecting any securities transactions. He can recommend the use of CCP to clients in need of brokerage or custodial services. In a limited number of circumstances, commission compensation will be earned or credited to this representative for advisory transactions that are placed at or through CCP on behalf of an MSI advisory client.

Certain of MIS' officers also act, via an LLC, as the General Partner of MIS Equity Strategies, L.P. (the Partnership). The activities of the Partnership include making investments in, among other things, IPO's, SPO's and covered call positions. The following is a discussion of the potential conflicts of interest that could arise in the course of MIS' management of both client accounts and the assets of the Partnership:

MIS and its respective affiliates engage in a broad range of investment, investment advisory and other activities. MIS and its affiliates will continue their investment, investment advisory and other activities. These activities include engaging in asset management for their own respective accounts and for pension funds and other institutions, in addition to client accounts, including separate accounts and other investment partnerships which may be managed similarly to the accounts of MIS clients. As a result, MIS and its affiliates may purchase or sell the same equity securities for its clients and for the other accounts managed by MIS and its affiliates, requiring an allocation of investment opportunities among MIS clients and the other managed accounts. There may also be conflicts of interest among MIS clients and the other managed accounts with respect to allocation of personnel, other resources and expenses.

MIS and its respective affiliates will have a potential conflict of interest in allocating investment opportunities among MIS' clients and any other investment ventures or accounts they manage or advise or will manage or advise. Mr. Anthony M. Reed, MIS' President, as well as the Manager of the Partnership's General Partner, will make investment decisions on behalf of each of the foregoing and will allocate investment opportunities among each of them in his sole discretion, which may result in MIS' clients participating more, less, or not at all with respect to certain investment opportunities from time to time. MIS' clients may also take positions that are similar to those taken by certain of MIS' affiliates and positions that are opposite to those taken by certain other of the MIS' affiliates. Such variances in the level of participation by and in investment decisions for MIS' clients may result in generating for MIS' clients returns that are less than the returns generated for the investors of the other investment vehicles or accounts managed by Mr. Reed.

The demands of concurrently managing multiple investment vehicles or accounts will also create a potential conflict of interest with respect to time for Mr. Reed, who may need to devote, from time to time, significant amounts of his time and resources to managing and operating such other investment vehicles or accounts. Nevertheless, Mr. Reed will devote to MIS' clients as much of his time as he deems necessary or appropriate to effectively manage their various investment activities.

Because of price volatility, occasional variations in liquidity, and differences in order execution, it also may not be possible for MIS to obtain identical trade execution for all of their respective clients. When block orders are filled at different prices, executed trades will be assigned on a systematic basis among all client accounts.

MIS will seek to resolve all conflicts of interest in good faith and on a fair and equitable basis in conformity with and in satisfaction of its duties and internal policies and procedures. Investment opportunities and the purchases or sales of equity securities generally are allocated taking into consideration the differing objectives of, the capital made available for each investment situation by, and the differing tax status of MIS' clients. Because they may have different investment objectives, or due to other considerations, including, without limitation, the differing tax status and treatment of its clients, MIS and its affiliates may at any time and from time to time take different, and even opposite, positions with respect to particular purchases or sales of securities.

MIS and its affiliates and principals may from time to time provide a broad range of investment advisory, consulting and other services to companies which are, or may become, the subject of an investment by a MIS client. In addition, the principals and employees of MIS and its affiliates may from time to time act as directors, officers or employees of such companies. As a result, MIS may acquire information of a confidential nature and may have fiduciary obligations to persons other than its clients with respect to a particular investment situation. Under those circumstances, MIS would not be able to advise its clients with respect to, or to purchase or sell on behalf of its clients, securities involved in such a situation where such advice or purchases or sales would be unfair, inequitable or a breach of any fiduciary obligation of MIS to a third party. MIS' clients do not intend to make loans to MIS or its affiliates. Assets of its clients are maintained in separate accounts and will not be comingled with assets of MIS or its affiliates.

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

#### **Code of Ethics**

MIS maintains a Code of Ethics. The Code of Ethics sets forth standards of conduct expected of advisory personnel; requires compliance with federal securities laws; and, addresses conflicts that arise from personal trading by advisory personnel. Clients and prospective clients will be provided a copy of the Code of Ethics upon request..

#### **Participation or Interest in Client Transactions and Personal Trading**

As mentioned above, from time to time, MIS' principals may recommend to their clients, the purchase of limited partnership or LLC interests that are sponsored by MIS affiliated persons or companies. Such recommendations are made only when it is felt that the investments in question are suitable for the client and meets their investment objectives. Clients are never obligated to purchase these investments.

#### **Personal Trading**

MIS and its respective managers, members, employees, and affiliates may trade securities for their own accounts. Clients will not be permitted to inspect the records of any such trading. MIS

and its respective managers, members, employees, and affiliates may be deemed to have a conflict of interest concerning the sequence in which orders for transactions will be transmitted to a broker for execution, since MIS and its respective managers, members, and employees, and affiliates may trade for their own accounts in addition to directing trading for MIS' client accounts. It is possible that MIS and its respective managers, members, employees, and affiliates will take positions either similar to or opposite to positions taken by MIS clients and that such accounts could also compete for the execution of the same trades.

Personal securities trading by MIS and its respective managers, members, employees, and affiliates for their own accounts could create potential conflicts of interest because the decision to buy or sell a security for MIS' clients can affect the value of that security or a related security held by MIS' or one of its affiliates, members, managers or employees, and the decision to buy or sell a security can affect the value of that security or a related security held by MIS' clients. Such trading by MIS or one of its affiliates, members, managers, or employees may compete with trading for or on behalf of MIS' clients. It is not anticipated, however, that MIS will be making any investment for its own account.

Notwithstanding the foregoing, any such transactions for the account of MIS or its members, managers, or employees will be entered into only if the transaction is consistent with MIS' fiduciary duties to its clients and its Code of Ethics or other applicable internal procedures. Further, MIS' Code of Ethics sets forth a policy requiring MIS' members, managers, and employees to obtain MIS' Chief Compliance Officer's prior consent to effect any reportable securities transaction in an initial public offering or a limited offering for their own accounts, irrespective of whether the member, manager or employee is on notice that the security in question is the subject of a recommendation to a client. MIS believes that with these guidelines in place, such reportable personal securities transactions by any of its members, managers, or employees can be monitored or, if necessary, prohibited.

MIS believes that it has developed adequate policies and procedures to monitor its selection of brokers who may refer to MIS, or whose employees or registered representatives become clients of MIS, to determine whether its selection of broker dealers is influenced by such matters, and whether its selection of broker dealers is consistent with its duty to obtain best execution when selecting brokers on behalf of its clients.

### Cross Trades

MIS may effect cross-trades through unaffiliated broker dealers between its advisory clients and between its clients and the clients of its affiliates. These cross-trades may include purchases or sales of securities from or to other clients of MIS or its affiliates. Any such trades are effected without the consent of or notification to such clients. MIS does not receive and special compensation, directly or indirectly, for effecting these cross-trades.

## ***Brokerage Practices***

### **Selection or recommendation of broker/dealers**

MIS participates in the Schwab Institutional (SI) services program offered to independent investment advisors by Charles Schwab & Company, Inc., an NASD-registered broker dealer. While it is not a requirement that MIS clients use SI as the custodian of their assets to be managed, SI is recommended to MIS. SI has been a leader in the field that services independent investment advisors and their clients for decades. SI has always been at the forefront of technological advancements that have improved and made more efficient the areas that clients and advisors alike can benefit from in their broker dealer relationship. Such areas include low commission rates, a wide array of available investment products, best execution, electronic delivery of statements and confirmations, on-line account access and trading, and back office support (which benefits the advisory firm).

MIS is not affiliated with SI. Nobody at MIS is a registered representative of SI, nor does anyone at MIS receive any commissions or fees from recommending the services of SI. In recommending the use of SI to its clients, it should be understood that MIS will not have the authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to other clients, or the commissions that might be charged at another broker dealer.

By virtue of their positions as licensed, registered representatives, certain of MIS' officers can also recommend SCl and/or CCP as a broker dealer, provided that they can each meet his fiduciary obligation of obtaining best execution.

### **Soft Dollar Practices**

MIS participates in SI's service program. While there is no direct linkage between the investment advice given and the participation in this program, economic benefits are received which would not be received if MIS did not give investment advice to clients. These benefits include: receipt of duplicate client confirmations and bundled duplicate statements; access to trading desks serving SI participants exclusively; access to block trading, which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client accounts; access, for a fee, to an electronic communication network for client order entry and account information; discounts on certain research products; receipt of compliance publications; and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors. The benefits received through participation in the SI program do not depend upon the amount of transactions directed to Charles Schwab & Company, Inc.

The benefits mentioned above may be deemed "soft dollars" that are being received by MIS. When a firm receives such benefits in consideration of its placing client assets in the custody of a broker dealer, the firm receives the benefits without having to produce or pay for such items. Thus, it could be concluded that a firm may have an incentive to recommend a broker dealer based on soft dollars received, rather than best execution for the client.

MIS understands its duty for best execution and considers all factors in making a broker dealer recommendation to clients. These benefits received may be useful in servicing all MIS clients,

and may not be used in connection with any particular account that may have paid compensation to the firm providing such services. While MIS may not always obtain the lowest possible commission rate, MIS believes the commissions its clients pay are reasonable in relation to the value of the brokerage and research services provided.

#### *Client Referrals From Brokers*

MIS believes that it has developed adequate policies and procedures to monitor its selection of brokers who may refer clients to MIS, or whose employees or registered representatives become clients of MIS, to determine whether its selection of broker dealers is influenced by such matters and whether its selection of broker dealers is consistent with its duty to obtain best execution. MIS will act in a manner consistent with its duty to obtain best execution when selecting brokers on behalf of its clients.

#### *Directed Brokerage*

It should be understood that although MIS does not have the authority to negotiate commissions, it may be able to obtain for its clients commission rates at SI which are more favorable than the rates Charles Schwab offers to its individual clients. Clients who direct MIS to use a broker dealer other than SI should understand that MIS may not be able to obtain similar discounts with another broker dealer, and that MIS may not be able to block trades or obtain best execution with another broker dealer. In addition, under these circumstances a disparity in commission charges may exist between the commissions charged to other clients.

#### *Trade Aggregation*

MIS will block (aggregate) trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts so long as transaction costs are shared equally and on a pro-rata basis between all accounts included in any such block. Block trading allows MIS to execute equity trades in a more timely, equitable manner and to reduce overall commission charges to clients. MIS representatives may participate in block trades with clients, and may also participate on a pro-rata basis for partial fills, but only if clients receive fair and equitable treatment.

There are situations in which orders for securities may not be aggregated with other orders entered at the same time for the same security. For example, clients of MIS may direct the execution of some securities transactions through specific brokers and may negotiate the rates for such transactions, and MIS will endeavor to comply with such directions. Where a client has directed that a specific broker be used to execute transactions, such transactions may not be aggregated with other orders entered at the same time for the same security, with the result that commission rates for such trades may differ from, or be more than, those charged on the aggregated transactions.

## ***Review of Accounts***

MIS receives an electronic download of transaction, pricing and all pertinent account activity from SI on a daily basis. This data is stored in a performance reporting system maintained by MIS. Each day, MIS reviews all transactional data sent by SI.

On no less than a monthly basis, all expiring covered call positions are reviewed to determine if the equity position is going to be called away, or, if not, what action should be taken going forward with respect to the continued holding of the underlying stock.

All clients receive a monthly brokerage statement. On a quarterly basis, MIS will provide a detailed performance review for each managed client portfolio. This review will present information to the client in both a dollar and percentage formats so as to assist the client in analyzing the performance of the investments recommended to them by MIS. Part of this reporting each quarter will include a "rebalancing report", which compares, by asset class, how much a client currently has invested versus the amount that had originally been targeted for each asset class. When current values invested differ, higher or lower, by more than an acceptable amount from the targeted values, a rebalancing trade is suggested for the client.

On no less than a quarterly basis, MIS will review the mutual funds owned by its clients. The purpose of this review is to determine if a given fund's performance, investment style, management team and fee structure still make it an appropriate choice for MIS client investment dollars.

MIS offers to speak over the phone or met in person with any client, as frequently as they may desire, to discuss their portfolio or MIS' management of it. All portfolio and security reviews are performed by MIS' President.

## ***Client Referrals & Other Compensation***

As a matter of general practice, MIS neither pays nor receives referral fees. However, since the possibility for such payments does exist, the following disclosures apply:

### **Referral Fees Paid**

MIS may enter into arrangements to pay referral fees to consultants or other individuals who introduce MIS to potential advisory clients and investors. MIS may also enter into arrangements with certain brokers or other individuals under which it will pay third parties a negotiated percentage of the fees it receives from clients based on assets invested by clients introduced by the third party, payable so long as the clients are fee paying clients. Any such arrangements entered into by MIS will be effected in accordance with all applicable rules and regulations.

### **Referral Fees Received**

MIS may exercise agreements with other Registered Investment Advisors and recommend other Advisors to clients. In such instances, MIS may receive a portion of the account fee or commissions. In these instances, we will make available to the client a "Compensation



Disclosure Statement" and the Form ADV for the other Advisor. The client is under no obligation to use the services of the other Advisor(s) recommended.

### ***Custody***

MIS is deemed to have custody of client funds because of the fee deduction authority granted by the client in the investment advisory agreement.

Clients will receive account statements monthly from the broker-dealer or other qualified custodian. The client is urged to compare custodial account statements against statements prepared by MIS for accuracy. Minor variations may occur because of reporting dates, accrual methods of interest and dividends, and other factors. The custodial statement is the official record of your account for tax purposes.

### ***Investment Discretion***

Generally, MIS will have the authority to determine, without obtaining specific client consent, the securities to be bought and sold (and the amount thereof). Despite having such authority, it is the common practice for MIS to communicate any significant recommended changes to a client portfolio prior to taking action to effect such changes. Minor changes, such as transactions entered for the purpose of rebalancing a portfolio, or the switching from one mutual fund to another within the same asset class, are generally done without first discussing such changes with the client.

MIS does not have the authority to withdraw funds or to take custody of client securities, other than under the terms of the Fee Payment Authorization clause in the Agreement with the client. MIS does have the ability to instruct SI to disburse funds from a client account, as long as the funds are being paid directly to the account holder and are being sent directly to the client's address of record, or, if being moved electronically, being delivered to an account in the client's name. All other disbursements from a client account can only be processed after obtaining a written request from the client.

### ***Voting Client Securities***

MIS does not vote proxies. It is the client's responsibility to vote proxies. Clients will receive proxy materials directly from the custodian. Questions about proxies may be made via the contact information on the cover page.

### ***Financial Information***

An investment advisor must provide financial information if a threshold of fee prepayments is met; there is a financial condition likely to impair the ability to meet contractual commitments; or, a bankruptcy has occurred within the past ten years. MIS does not have any disclosure items in this section.