

FORM ADV: BROCHURE
AUG INC dba GROSS INVESTMENTS

**GROSS INVESTMENTS
26 WEST ORANGE STREET
LANCASTER, PA 17603
(717) 299-4423
WWW.GROSS-INVESTMENTS.COM**

**Donald R. Gross, Jr.
Chartered Financial Analyst**

March 11, 2013

This brochure provides information about the qualifications and business practices of AUG INC dba Gross Investments referred to going forward as Gross Investments. If you have any questions about the contents of this brochure, please feel free to contact us at (717) 299-4423 and/or don@grossinv.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.

Additional information about Gross Investments can be reviewed on the SEC's website at www.adviserinfo.sec.gov.

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Item Number 2
Material Changes

This page will explain any material changes since the last annual update of our brochure, March 1, 2012.

There have been no material changes in 2012.

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Item Number 3
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Item Number 4
Advisory Business

AUG, INC., dba Gross Investments:

Gross Investments has been in business since 1988, or 25 years. Our full legal name is AUG, INC., dba Gross Investments. We primarily conduct our business under the name Gross Investments.

Principal Owners:

The SEC requires owners of over 25% be documented and available to the public. Donald R. Gross Jr. is the primary owner of Gross Investments, and the only shareholder that owns 25% or more of the business.

Types of Advisory Services Offered:

Gross Investments provides two types of Advisory Services: **Investment Management Services** and **Consulting Services**. Investment Management Services is Full Discretion and considered Supervisory Services. Consulting Services is not full discretion.

Investment Management Services:

Investment Management services includes stock, bond and mutual fund management. Accounts are held at a brokerage firm agreed upon by both the client and Gross Investments. With **Investment Management Services** Gross Investments is granted trading authority over the account, and buys and sells securities that are appropriate for the client's investment objectives. These services also include initial investment objective setting and asset allocation. The initial assets are selected to meet the determined investment objectives. The assets are then monitored for continued appropriateness and maturity, or the purchase of new assets. Stocks are bought and sold based on valuations and movements on and off our approved list. We communicate performance and update asset allocation information to our clients through quarterly letters. Mutual Funds are bought and sold based on appropriateness for the client and movement on and off our approved list. **Investment Management Services** also include maintaining records, sending client statements, and presenting performance figures on the client's accounts. The investment objectives of the client are continuously monitored over time for changes.

Investment Consulting Services:

Investment Consulting is **not full discretion**, and is billed on an hourly basis. Gross Investments manages multiple accounts on an hourly basis. In most instances, the client

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gives Gross Investments a project, such as retirement planning or developing an asset allocation with the findings of the project reported back to the client. Other services include mutual fund/manager selection, performance measurement, and college savings planning. The project is analyzed with a summary of the analysis provided in writing to the client. It is pre-determined if the client or Gross Investments will place the trades as a result of the analysis.

Advisory Services Tailored to Meet the Needs of the Client:

We tailor our investment advice to the needs of our clients. Clients can choose from a variety of offerings, which include investment management and consulting services. They can create their own type of service. For example, we have clients that have us manage their bonds portfolios, but also utilize our consulting services for manager selection. Clients can put restrictions on their portfolios that are outside of our normal management techniques. Examples are index only portfolios, alternative energy portfolios and restrictions on the length of maturities in the bond portfolio. Gross Investments reserves the right to decline certain requests from clients if the request falls outside of our normal strategies and level of expertise.

Client Assets Managed:

As of 3/1/2013, Gross Investments has 68 clients. The breakdown between discretionary and non-discretionary AUM is shown in the chart below:

| | |
|--|----------------------|
| Discretionary Assets Under Management: | \$110,000,000 |
| Non-discretionary AUM: | <u>\$ 21,000,000</u> |
| | \$131,000,000 |

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Item Number 5
Fees and Compensation

Investment Management Services:

| | <u>Fee</u> | <u>For Dollar Amount Under Management</u> |
|--------------------------|------------|---|
| Fixed Income Portfolios: | 0.25% | All Fixed Income Portfolios |
| Mutual Fund Portfolios: | 0.50% | All Mutual Funds: Equities, Bonds, International |
| Equity Portfolios: | 0.75% | Between \$0 and \$250,000 |
| | 0.60% | Between \$250,000 and \$1,000,000 |
| | 0.50% | Accounts over \$1,000,000 |

Gross Investments charges its management fees at the end of each quarter, based on the following calculation: Assets under management * fee rate * days in quarter/365.

Investment Management Services accounts are billed on a quarterly basis.

Other Costs and Brokerage Fees:

Other fees paid by clients, but not revenues of Gross Investments, include: TD Ameritrade commission rates (\$10.00 per trade), Mutual Fund Fees (variable), Trade Away Fees (\$25.00 per trade). TD Ameritrade does not charge a custody or account charge.

Investment Consulting Services:

The hourly fee for this service is \$140 per hour (\$36 per hour for secretarial work). Fees for services based on an hourly fee are charged at the completion of the project, or for on-going clients, at the end of each month that work is done. (Any direct expense, such as travel or postage, is billed at the end of the project or monthly as outlined above.)

Negotiable Fees:

Fees for all types of services are negotiable. Gross Investment has given discounts for extremely large clients or large projects.

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Billing Method:

All clients may elect to have the fee deducted directly from their asset accounts, or billed by invoice, as indicated on their contract. Both types of billing include a statement detailing the charges and work completed.

Advance Fee Payment:

No fees are requested or accepted in advance.

Other Compensation:

Gross Investments receives no other compensation from its clients beyond the fees charged (as outlined for investment management fees and consulting fees). Clients will incur no fees from Gross Investments resulting from compensation of sale of securities or investments products. Gross Investments does not charge a fee for the sale or purchase of a mutual fund (only management or hourly fees). All transaction fees charged (commissions) are revenues to the custodian brokerage firm, and not revenues to Gross Investments.

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Item Number 6
Performance-Based Fees and Side-By-Side Management

Gross Investments does not charge performance based fees.

Gross Investments does not participate in Side-By-Side Management.

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Item Number 7
Types of Clients

Clients of Gross Investments:

The following are the types of clients that Gross Investments generally provides investment advice to and their percentage of our business:

| <u>Business Type</u> | <u># of Clients</u> | <u>% of AUM</u> |
|---|---------------------|-----------------|
| Individuals | 71% | 29% |
| High Net Worth Individuals | 12% | 50% |
| Banking or Thrift Institutions | 0% | 0% |
| Investment companies | 0% | 0% |
| Pension and profit sharing plans | 3% | 2% |
| Trusts, estates, or charitable organizations | 11% | 12% |
| Corporations or business entities other than those listed above | 3% | 7% |

Minimum Account Balance:

Gross Investments does not have a stated minimum account balance for opening an account. Instead, smaller accounts usually select Investment Consulting Services. As long as an account is large enough to be properly diversified, the client can choose between Full Discretion Investment Management or our Investment Consulting Services.

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Item Number 8
Methods of Analysis, Investment Strategies and Risk of Loss

Our process begins with establishing the proper asset allocation for our clients that creates the appropriate risk level and potential returns.

Bonds:

The bond portfolio is managed for safety and as a source of income, while the riskier asset classes are held for their long-term return potential. The bond portfolio is managed using a laddered strategy employing high quality fixed income instruments. This will include US Treasuries, Federal Agencies, insured CD's, and municipal securities. Gross Investments will buy corporate bonds from time to time, but most of our purchases fall in the other categories.

For our higher tax bracket clients, we will focus on high quality tax exempt securities. Individual bonds are selected based on their time to maturity, their yield to maturity, and several factors identifying their quality. This starts with the securities rating provided by one or more of the rating agencies. Our minimum rating is a single-A (or equivalent). We buy a large number of enhanced securities. This includes pre-refunded bonds, but also includes bonds that carry the State Intercept programs, as well as other enhancements. We look beyond the rating agencies using several sources of information, including data on the municipal entities underlying stress index, unemployment rate, foreclosure rate and other factors. We also monitor the municipal issuer data on the EMMA website.

We expect the risk level of the bond portfolios to be very low. We are willing to accept a lower return from the bonds in return for greater safety. The bond prices will still move with changing interest rates, but we believe the risk of permanent loss is very low.

Equity:

Equity management utilizes a bottom up (company-selected) approach. The portfolio is diversified through the use of roughly 25 to 30 companies in various industries. Economic research and forecasting suggests the industries and types of companies, and fundamental research helps us select the individual company to purchase. Gross Investments manages a concentrated portfolio that does not attempt to mimic the S+P 500, but instead attempts to beat the index over the long term.

We will exempt certain industries (we have not held a utility stock in over 20 years), and will have concentrations in other industries. The fundamental research is based on P/E's, past earnings growth, future earnings growth, and the relationship between the P/E and the potential growth rate (PEG ratio). We also believe in holding lower risk companies

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with lower debt levels, and companies that pay a higher than Index dividend yield. We utilize the following types of securities in our Equity Portfolios: Exchange listed equity Securities, US Traded Foreign Securities, Exchange Traded Funds, Convertible Bonds and Convertible Preferreds, and Interests in Real Estate Partnerships.

Mutual Fund Portfolios:

Mutual fund portfolios are managed for our clients for added diversification or for those clients with a bias against individual equities. Our approved manager list is developed through in-house research, which utilizes a matrix of attributes. This includes short and long-term returns, fees, turnover, and manager tenure (among other characteristics). The manager list also includes index funds in various categories. For active managers, we have approved funds for large cap value, large cap growth, small cap value, small cap growth, international, international value, international growth, emerging markets, real estate and high yield bonds.

Sources of Information:

For sources of information for our bond, stock and mutual fund management we use: Bloomberg, Morningstar, EMMA, various broker reports, and various news services such as the Wall Street Journal and Internet news services. In addition, we use Annual reports, prospectuses, filings with the SEC and Company press releases.

Risk:

We hold out that the risk of loss on the bond portfolio, over time, will be 0%. In developing asset allocations, we believe that the worst market-to-market decline in our bond portfolios will be -10%. The risk of loss in our other asset classes is much higher. We convey to our clients that equities are a very risky asset class. For the client to be invested in US stocks, they must be able to tolerate a market loss (from market high to market low) of -50%. For international stocks, this rises to -60%. This information is conveyed to our clients in the initial asset allocation setting report, as well as periodically in our quarterly updates. We believe client's that understand the true risks of their investments are better able to remain fully invested during the worst of times, thus allowing them to gain full advantage of the higher long-term returns provided by the equity markets.

Strategy:

Our overall strategy calls for holding all of our securities for the long-term. For our bond holdings, the vast majority of our bonds are held until maturity. We believe that this greatly reduces the risk of loss on the holding. Bonds are unique in that we know at the time of purchase exactly what our return will be, if the bond is held until maturity. There may be times when a bond is sold prior to maturity. This will mainly involve the

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deterioration of the quality of the bond, but a sale may also be incurred for tax purposes. Our equity and mutual fund holdings are also purchased for the long run. This should lead to the diversified portfolio attaining the expected long-term return in each asset class. Long-term holdings also reduce trading costs and tax costs (by delaying capital gains and by attaining the lower long-term capital gains tax rate).

We do not use short-term trading strategies for our equity holdings. Stocks and funds may be sold sooner than we expected. For equities, this would result in a fast run-up in price, or a deterioration of the company's financial situation. For mutual funds, they may be sold if the performance of the fund deteriorates, or there is an unexpected event, such as a change in strategy or change in the manager of the fund.

Our concentrated individual equity strategy can result in higher risks than a more diversified strategy. We believe the portfolio is properly diversified, and can be held as a stand-alone investment. However, should one or several of our companies run into difficulty, the risk of loss of the entire portfolio is higher due to the higher proportion of the holdings. This risk can be mitigated by holding additional mutual funds or having managers outside of Gross Investments. Our other strategies, such as the laddered bond holdings, diversified mutual fund holdings, and our overall philosophy of holding investments for the long-term are designed to reduce the risk of the portfolio. If nothing else, the focus on long-term holdings reduces the trading and tax costs incurred.

The agreement between Gross Investments and the client places no limitation on us to buy and sell securities. Risk tolerance and an agreed-upon asset allocation will be followed by Gross Investments for the client.

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Item Number 9
Disciplinary Action

Gross Investments and its advisors have not been involved in any disciplinary action.

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Item Number 10
Other Financial Industry Activities and Affiliations

Not Applicable

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Item Number 11

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

Code of Ethics:

Gross Investments follows the Chartered Financial Analysts Code of Ethics and Standard of Professional Conduct:

Code of Ethics:

- Place the integrity of the profession and the interests of clients above your own interests
- Act with integrity, competence, and respect
- Improve and maintain your professional competence

Standards of Professional Conduct:

- Professionalism
- Integrity of the capital markets
- Duties to clients
- Duties to employers
- Investment analysis and recommendations
- Conflicts of interest

Gross Investments' Code of Ethics is available upon request.

Participation or Interest in Clients' Transactions:

Gross Investments does not sell securities to its clients in which Gross Investments has an interest or in which Gross Investments makes money on the sale of these securities. Gross Investments does not receive any revenues from clients' transactions. Gross Investments does not create partnerships or like investments for sale to its clients.

Interest in Same Securities:

Related parties may, from time to time, purchase the same securities as clients. However, these purchases will be made simultaneously or after the purchase in the clients' account. Any hard-to-get security will be allocated to the client's portfolio before any will go to a related party's portfolio. Likewise, sales of any securities will be done in such a manner so that the client's holdings will be sold at the same time or before the related party's holdings are sold.

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Personal Trading:

Gross Investments and/or related persons will buy or sell the same securities held by clients at the same time as the client transaction. For Equities and Mutual funds, this is done through block trading, where the client and related parties receive the same, average price. Gross Investments and related parties involvement in these trades will not have a material effect on the price paid/received for the securities. Gross Investments will always take the path that favors the client. If we believe our personal trades inclusion in a block trade will cause our clients to get a lower price, then we will place the block trade without our shares, and come back to place our trades at a separate time.

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Item Number 12
Brokerage Practices

Because Gross Investments does not have custody, and the majority of clients do not want to be involved in moving money from broker to broker, Gross Investments helps the client select a broker that will offer the best pricing and execution for the services they require. Gross Investments currently recommends TD Ameritrade due to their decent level of commissions for stocks and mutual funds, their ability to execute block trades and their trade away and prime broker services.

Clients may choose to hold their assets with a broker of their choosing. This may result in higher trading costs than dealing with TD Ameritrade.

Not all advisors recommend brokers to their clients. Clients may be able to find cheaper commissions outside of TD Ameritrade. TD was selected based on the services they offer, and certain clients may not benefit from all of these services. While we monitor execution, TD may not achieve the most favorable execution rates and this may cost our clients money. We believe that TD can execute trades at a reasonable rate, so savings under TD's rate would be minimal.

Any client brokerage instructions are maintained in the client document file.

Gross Investments does not take brokers referrals.

Gross Investments does not participate in soft dollar arrangements.

Advisor participates in the Institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services that include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the Program. (Please see the disclosure under Item 14 below.)

Trade Aggregation:

Clients can benefit with an investment adviser utilized aggregated trades (also called block trading). This involves placing one trade for multiple accounts selling the same security. Gross Investments utilizes trade aggregation anytime more than one client is trading the same security. We believe the client benefits from reduced trading costs, and the average price created by the aggregation. Please note that if Gross Investments were not to aggregate the trades, a higher trading cost could occur.

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Item Number 13
Review of Accounts

Account Review:

All accounts are reviewed at least monthly, when asset statements are run. Accounts that hold assets under consideration for sale, or are suitable for securities under consideration for purchase, are reviewed at the time of such consideration. We also review accounts for re-balancing and/or securities growing to be too large of a percentage of the account. In addition, accounts with maturities or option expirations are reviewed before that occurrence.

The only reviewer is Donald R. Gross, Jr., who manages all Gross Investments' accounts. Accounts will be reviewed for the proper mix of assets, that holdings match recommended holdings, that cash levels are appropriate, and the percent of the market value of each asset is under 10%, and appropriate.

Account Reports:

All supervisory, full discretion clients will be sent the following, not less frequently than once every month:

- An itemized statement showing; the funds and securities in the accounts managed by Gross Investments at the end of such period, and all debts, credits and transactions in such customers' account during such period.
- Asset statements showing the client's holdings, including the number of shares (par value) of each asset, the security name, original cost, current market value, annual projected income, market yield and the percent of total market value. Totals for each column are also shown.
- Transaction statements showing all debts, credits and transactions that occurred during the month. It includes the date on which it occurred, the nature of the transaction, whether it was bought or sold, and how much was bought or sold.

All clients receive a monthly statement from the custodial broker.

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Item Number 14
Client Referrals and Other Compensation

Gross Investments is not paid, and does not receive any economic benefit from any outside party for the management of our clients' investments.

Gross Investments also does not pay any party outside of the firm for client referrals.

As disclosed under Item 12 above, Advisor participates in TD Ameritrade's Institutional advisor program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Advisor's participation in the Program and the investment advice it gives to Clients, although client receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research-related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third-party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist Advisor in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Advisor endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

Advisor may receive succession planning, practice valuation and equity management services from third-party vendors through Advisor's participation in the TD Ameritrade Institutional Equity Management Program. In addition to meeting the minimum eligibility criteria for participation in the TD Ameritrade Institutional Equity Management Program, Advisor may have been selected to participate in the TD Ameritrade Institutional Equity Management Program based on the amount and potential

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profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with Advisor and there is no employee or agency relationship between TD Ameritrade and Advisor. TD Ameritrade has established the TD Institutional Equity Management Program as a means of assisting independent unaffiliated Advisors to grow and maintain their respective investment advisory business. TD Ameritrade does not supervise Advisor and has no responsibility of Advisor's management of client portfolios or Advisor's other advice or services to clients.

Advisor's participation in the Institutional Equity Management Program raises potential conflicts of interest. Advisor may encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to participate in the TD Ameritrade Institutional Equity Management Program, Advisor may have an incentive to recommend to clients that the assets under management by Advisor be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. Advisor's participation in the TD Ameritrade Institutional Equity Management Program does not relieve the Advisor of the duty to seek best execution of trades for client accounts.

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Item Number 15
Custody

Gross Investments does not have custody of clients' funds. All of our clients' investments are held at a brokerage account or invested directly with an investment partnership. It is safer for the client to hold their investments with a broker and grant Gross Investments trading authority over the accounts. Money flows back to the clients in the form of a check sent to their home address, or wire transfer to their checking account.

Clients will receive statements from both the brokerage holding the assets as well as directly from Gross Investments. We strongly recommend that clients review both statements for their accuracy, and compare the brokerage statement to the one provided by Gross Investments. This is an easy way to prevent the type of financial fraud committed by Bernie Madoff and Allen Stanford.

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Item Number 16
Investment Discretion

Discretionary Authority:

Gross Investments accepts discretionary authority from its clients in the management of their investment portfolios. Client's have the choice between granting full discretion, full discretion with limitations, or client approval before trades are placed. The full and partial discretion is granted by the client through the brokerage agreement, authorizing Gross Investments to have limited power of attorney for trading purposes. The full discretion with limitations, or partial discretion, is an agreement between Gross Investments and the client, and is not formalized with the brokerage firm. The limitations vary by client, and have included requests to hold certain stocks or mutual funds, or to avoid certain stocks, to utilize certain strategies such as Green Investing, or to limit the maturities on individual bonds to pre-defined limits. We try to work with client's requests, but there have been times where we have refused, believing that it too cumbersome or not in the best interest of the client. In this instance, the client had the choice to not open the account, close the account, or move the money involved to another manager.

Full Discretion Management:

Gross Investments manages investment portfolios on a full discretion basis. This service includes stock, bond and mutual fund management. Accounts are custodied at a brokerage firm that is acceptable to both the client and Gross Investments (typically TD Ameritrade). Gross Investments is granted trading authority over the account, and buys and sells securities that are appropriate for the client's investment objectives. This service also includes initial investment objective setting and asset allocation. The initial assets are selected to meet the determined investment objectives. The assets are monitored for continued appropriateness and maturity, or the purchase of new assets, as appropriate. Services also include maintaining records, sending client statements, and presenting performance figures on the clients' accounts. The investment objectives of the client are monitored over time for changes.

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Item Number 17
Voting Client Securities

Gross Investments, as a matter of policy and practice, may have authority to vote proxies on behalf of advisory clients. The firm may offer assistance as to proxy matters upon a client's request or vote the proxy directly for the client.

Gross Investments monitors such services to periodically determine and confirm that the client may utilize Gross Investments to handle voting client securities. By indicating on the Client agreement, the Client gives authority to Gross Investments to vote Client Securities. The proxy is then sent directly from the custodian broker to Gross Investments.

Proxy voting is an important right of shareholders and reasonable care and diligence is undertaken to ensure that such rights are properly and timely exercised.

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Item Number 18
Financial Information

Gross Investments requires no prepayment in fees from client.

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Item Number 19
Requirements for State-Registered Advisers

Gross Investments is registered with the Securities and Exchange Commission and follows SEC requirements.