

# **Steele Capital Management, Inc.**

## **Form ADV Part 2A**

### **Summary Disclosure Brochure**

**Dated: September 29, 2017**

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This Brochure provides information about the qualifications and business practices of Steele Capital Management, Inc. ["SCM"]. If you have any questions about the contents of this Brochure, please contact SCM at (563) 588-2097 or [info@steelecapital.com](mailto:info@steelecapital.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.

Steele Capital Management, Inc. is a registered investment adviser with the SEC pursuant to the Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or training.

Additional information about Steele Capital Management, Inc. is available on our website, [www.steelecapital.com](http://www.steelecapital.com) or the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 - Material Changes**

Since its last annual update (March 1, 2017), Steele Capital Management, Inc. (SCM) has made material changes to the services it provides.

As of September 29, 2017, Kevin Timmerman has left SCM, and Michael Steele is the sole owner.

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#### **Item 4 – Advisory Business**

SCM is an independent fee-only registered investment adviser providing investment advisory services to both individuals and company sponsored retirement plans. To best serve clients, SCM is committed to minimizing potential conflicts of interest and providing transparent pricing.

SCM has been in business since 1995 and is privately owned by Michael Steele.

As of June 30, 2017, SCM had \$1,827,220,000 of assets under management, of which \$1,751,479,000 was managed on a discretionary basis and \$75,741,000 was managed on a non-discretionary basis.

Prior to engaging SCM to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with SCM setting forth the terms and conditions under which SCM renders its services (collectively the “Agreement”).

This Disclosure Brochure describes the business of SCM. Certain sections will also describe the activities of Supervised Persons. Supervised Persons are any of SCM’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on SCM’s behalf and is subject to SCM’s supervision or control.

#### **Investment Management Services**

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Clients may engage SCM to manage all or a portion of their investment portfolios on a discretionary basis. SCM typically will assist clients in determining their investment objectives, risk tolerance, and cash flow needs before constructing an appropriate investment portfolio. SCM may also provide clients with financial planning services as a part of its investment management services. SCM does not participate in wrap fee programs.

SCM primarily allocates client assets among various investments, with a strong bias for low-fee, tax advantaged investments typically embodied through a passive approach to the markets. However, where certain opportunities present themselves or SCM believes that a manager has an unusual advantage in a marketplace; SCM may suggest and employ other strategies. These strategies may include mutual funds, exchange-traded funds (“ETFs”), or other listed securities, in accordance with the investment objectives of its individual clients. Where appropriate, SCM may also provide advice about client-selected securities, legacy positions, or other investments held in client portfolios.

SCM also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client’s primary custodian. In so doing, SCM either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Although SCM does have certain investment strategies that it seeks to execute for all of its clients, SCM will tailor its advisory services to the individual needs and preferences of each client. SCM’s investment advisory services have been designed to comply with the requirements of Rule 3a-4 of the Investment Company Act of 1940. Rule 3a-4 provides similarly managed investment programs, with a non-exclusive safe harbor from the definition of an investment company. In accordance with Rule 3a-4, the following disclosure is specifically applicable to SCM’s management of client assets:

1. Initial Interview – at the opening of the account, SCM, through its designated representatives, shall obtain from the client information sufficient to determine the client’s financial situation, investment objectives, and any reasonable restrictions;
2. Individual Treatment – the client’s account is managed on the basis of the client’s financial situation, investment objectives, and in accordance with any reasonable restrictions imposed by the client;
3. Quarterly Notice – on client’s quarterly statement, SCM shall ask each client to advise SCM whether or not the client’s financial situation or investment objectives have changed, or if the client would like to impose and/or modify any reasonable restrictions on the management of the client's account;
4. Annual Contact – at least annually, SCM shall contact the client to determine whether the client’s financial situation or investment objectives have changed, or if the client would like to impose and/or modify any reasonable restrictions on the management of the client's account.
5. Consultation Available – SCM shall be reasonably available to consult with the client regarding the status of the client’s account;
6. Quarterly Statement – each client shall be provided with a quarterly performance report.
7. Ability to Impose Restrictions – the client shall have the ability to impose reasonable restrictions on the management of the account, including the ability to instruct SCM not to purchase certain investments; and,
8. Ownership – each client retains indicia of ownership of the account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

### **Financial Planning**

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SCM makes financial planning available to its investment management clients for no additional cost. This service provides guidance in the areas of retirement planning, estate planning, education funding, tax planning, cash flow analysis, and Social Security maximization.

### **Company Sponsored Retirement Plans**

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SCM also specializes in providing investment advisory services to company sponsored retirement plans. Advisory services provided are in the nature of research, analysis, and selection of investment alternatives. SCM may manage a plan's assets on a discretionary or nondiscretionary basis. SCM’s services also include participant education and enrollment. SCM typically does not make specific investment recommendations to plan participants. However, participants may contract directly with SCM for investment advisory services.

### **Strategic Roadmap Portfolios**

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The Strategic Roadmap Portfolios (SRP) are five Collective Investment Funds (CIF) sponsored by TD Ameritrade Trust Company (TD). A CIF is an institutional-only structured fund that is exclusively available to certain types of tax-exempt retirement plans. As trustee of the SRP, TD has engaged SCM as the subadvisor to the funds. As such, each of the funds is invested according to the strategies developed and provided by SCM. The five SRP funds that SCM manage are the Conservative Fund, Moderate Fund, Balanced Fund, Growth Fund, and Aggressive Fund. SCM utilizes these funds in the company sponsored retirement plans that it advises. Retirement plan participants are encouraged to select the fund that best suits to their investment goals and objectives. Although SCM receives compensation from plans to

which it provides advisory services, SCM does not receive any subadvisory fees or additional compensation for subadvising the SRP.

## **Item 5 – Fees and Compensation**

### **Investment Management Fees**

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SCM provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by SCM. SCM's annual fee is negotiated as a percentage of assets under management, not to exceed an annualized fee of 1.5%. SCM, in its sole discretion, may decrease its annual minimum fee and/or charge a lesser management fee. SCM's annual fee is exclusive of, and in addition to, brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. SCM does not, however, receive any portion of these commissions, fees, and costs. Item 12 further describes the factors that SCM considers in recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

SCM's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by SCM on the last day of the previous quarter. SCM deducts the fee from the client's account unless the client specifically requests the fee to be direct billed. If investment management services are terminated, unearned fees paid in advance will be ratably refunded upon request of the client. The refund is calculated based on the number of days remaining in the quarter as a percentage of the number of total days in the quarter times the fee charged. Clients may terminate the Advisory relationship during the first 5 days at no cost.

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

SCM does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

SCM provides portfolio management services to individuals, high net worth individuals, corporations/businesses, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, and endowments.

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

### **Methods of Analysis and Investment Strategies**

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SCM assists clients with long-term investment plans that are guided by documented client goals, constraints and risk profiles. To this end, SCM makes initial investment recommendations only after thoroughly analyzing each new client's risk tolerance, goals and financial situation. Once SCM has established an appropriate investment portfolio for a new client based on these guiding factors, SCM then meets or interacts with each client at least annually to review any changes to their situation that may require adjustments to their investment portfolio.

To manage investment risk, SCM uses a range of strategic asset allocation models for various investor time horizons, risk profiles and investment objectives. SCM uses these models as a starting point to develop asset allocation strategies that are tailored to the unique needs of each client.

In order to widely diversify investments, SCM uses asset allocation models that employ multiple asset classes, and typically recommends only well-diversified mutual funds and exchange-traded funds as investment options within these asset classes.

To optimize investment performance, SCM pursues the following three strategies:

1) SCM seeks to select sound and well-performing investments (i.e., mutual funds, exchange-traded funds, etc.) in each asset class it utilizes. To this end, SCM uses a disciplined investment review process that employs both internal and externally-purchased investment screening methodologies and tools to assess investments on both quantitative and qualitative factors. Some examples of screening criteria used include: i) level of regulatory oversight, ii) historical investment performance relative to appropriate benchmarks and peer group, iii) size of fund in terms of total assets managed, iv) stability of the organization, v) investing style and history relative to asset class and stated investment objectives, vi) expense ratio and/or fees relative to peer group, and vii) investment manager tenure.

Once SCM selects investments to recommend to clients, it monitors performance of these investments at least quarterly to ensure they continue to perform satisfactorily relative to the original qualitative and quantitative screens used to initially select them.

2) SCM periodically rebalances client portfolios back to their target asset allocation to methodically capture gains in well-performing asset classes and take advantage of depressed values in assets classes that may be temporarily out of favor.

3) SCM monitors each client's overall investment performance at least quarterly by producing comprehensive performance reports showing each client's entire investment portfolio so appropriate adjustments can be made, as needed.

SCM does not attempt to actively time investment purchases or sales (i.e., market timing) as a method to boost investment performance.

## **Risks**

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It should be noted that all investments are subject to inherent risks, and investments in the portfolios managed by SCM are no exception. Accordingly, you may lose money when investing with SCM. Portfolios utilizing each of SCM's strategies will fluctuate, reflecting day-to-day changes in market conditions, interest rates and numerous other factors. It is possible, even in SCM's conservative strategy, that a client will lose money. Investing in securities involves risk of loss that client should be prepared to bear.

## **Item 9 – Disciplinary Information**

SCM is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. SCM does not have any required disclosures to this Item.

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

### **Retirement Plan Services, LLC**

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Steele Retirement Plan Services, Inc. owns 16% of RPS Benefits (RPS), a third party administrator (TPA) of company sponsored retirement plans; Michael Steele owns 50% of Steele Retirement Plan Services, Inc. Retirement plan clients of SCM may engage RPS as their TPA or they may choose to engage the services of another TPA. If RPS is retained by a SCM client, Michael Steele, a principal of SCM, will benefit due to his ownership in RPS. A conflict of interest exists to the extent that SCM recommends the use of RPS where a principal of SCM benefits from such recommendation.

### **Receipt of Insurance Commissions**

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Certain of SCM's Supervised Persons, in their individual capacities, are also licensed insurance agents with various insurance companies, and in such capacity, may recommend, the purchase of certain insurance products. While SCM does not sell such insurance products to its investment advisory clients, SCM does permit its Supervised Persons, in their individual capacities as licensed insurance agents, to sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that a Supervised Person recommends the purchase of insurance products and receives insurance commissions or other additional compensation.

## **Item 11 – Code of Ethics**

SCM has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at SCM must acknowledge the terms of the Code of Ethics annually, or as amended.

SCM anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which SCM has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which SCM, its affiliates and/or clients, directly or indirectly, have a position of interest. SCM's employees and persons associated with SCM are required to follow SCM's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of SCM and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for SCM's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of SCM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

SCM's recommendations do not generally have the potential for a conflict of interest arising from recommendation of securities traded in an active market. Any purchase or sale of such securities by



SCM consultants should not alter the price of the investment as sold by the issuer. Such securities or investment products may be publicly traded, not publicly traded, or insurance.

SCM has implemented an investment policy relative to personal securities transactions. This investment policy is part of SCM's overall Code of Ethics which serves to establish a standard of business conduct for all of SCM's Access Persons that is based upon fundamental principles of openness, integrity, honesty and trust. All Access Persons are required to report personal securities transactions as these are monitored by the Chief Compliance Officer to ensure compliance with SCM's Code of Ethics.

SCM's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Kathryn Moran, Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

### **The Custodian and Brokers SCM Uses**

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SCM does not maintain custody of the client assets they manage; although SCM may be deemed to have custody of client assets if the client gives SCM authority to withdraw assets from the client's account (see Item 15 – Custody, below). Client assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. Each SCM client reserves the right to direct brokerage/custodian business to any financial institution of choice (subject to SCM's right to decline or terminate the engagement). SCM recommends that its clients use one of its "Preferred Custodians" (Charles Schwab & Co., Inc. (Schwab), TD Ameritrade, Inc., and Scottrade, Inc.), as the qualified custodian. All three are registered broker/dealers and members of SIPC. SCM is independently owned and operated and is not affiliated with any of the Preferred Custodians. Each Preferred Custodian holds client assets in brokerage accounts and buys and sells securities when SCM/client instructs them to do so. While SCM recommends that clients use a Preferred Custodian, each client decides whether or not to do so and opens an account with a Preferred Custodian by entering into an account agreement directly with the Preferred Custodian. SCM does not open accounts for clients, although SCM may assist clients in doing so. Not all advisors require clients to use a particular broker-dealer or custodian. Although client accounts are maintained at a Preferred Custodian, SCM is able to use other brokers to execute trades for client accounts as described below (see "Client Brokerage and Custody Costs"). If the client directs brokerage to a Non-Preferred Custodian, SCM will not be able to negotiate commissions, achieve best execution, aggregate orders to the extent it may have been possible with our Preferred Custodians, and so the client may pay more than they otherwise would have under the circumstances.

### **How SCM Evaluates Brokers/Custodians For Recommendation to Clients**

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SCM seeks to recommend custodian/broker-dealers that hold client assets and execute transactions on terms that are, overall most advantageous to clients when compared to other available providers. SCM considers a wide range of factors, including, but not limited to:

- Overall quality of custodial services
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of investment products available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)

- Availability of investment research and tools to assist SCM in making investment decisions
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate when special circumstances dictate.
- Reputation, financial strength, and stability
- Availability of other products and services that benefit SCM, as discussed below (see “Products and Services Available to SCM From Preferred Custodians”)

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### **Client Brokerage and Custody Costs**

Preferred Custodians generally do not charge SCM clients separately for custody services but rather receive compensation in the form of trade commissions or other fees it may charge to client accounts.

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### **Products and Services Made Available to SCM by the Preferred Custodians**

Each Preferred Custodian has a business unit that serves independent investment advisory firms like SCM. Each provide SCM and its clients with access to its institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to retail customers. Each Preferred Custodian also makes available various support services to SCM. Some services help SCM manage or administer clients’ accounts, while others help SCM manage and grow its business. Such services generally are available on an unsolicited basis (SCM doesn’t have to request them) and are provided at no cost to SCM. The following is an overview of the services the Preferred Custodians may provide to SCM or SCM clients:

**Services That Benefit Clients.** Each Preferred Custodian's brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through the Preferred Custodians include some to which SCM might not otherwise have access or that would require a significantly higher minimum initial investment by SCM clients. These services generally benefit SCM clients.

**Services That May Not Directly Benefit Clients.** The Preferred Custodians also make available to SCM other products and services that benefit SCM but may not directly benefit SCM clients. These products and services assist SCM in managing and servicing client accounts. Such services include investment research, both the Preferred Custodians' own and that of third parties. SCM may use this research to service all or a substantial number of SCM clients’ accounts including accounts not maintained at the Preferred Custodians. In addition to investment research, the Preferred Custodians also provide software and other technology that:

- Provide SCM access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and aggregated trade allocation orders for multiple client accounts. However, SCM does not aggregate the purchase or sale of securities. Typically, SCM is purchasing mutual funds inside client accounts so there is not a cost benefit to aggregating.
- Provide pricing and other market data
- Facilitate payment of SCM fees from clients’ accounts
- Assist with back-office functions, recordkeeping, and client reporting

**Services That Generally Benefit Only SCM.** The Preferred Custodians also offer other services intended to help SCM manage and further develop SCM's business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefit providers, human capital consultants, and insurance providers

The Preferred Providers may provide some of these services itself or arrange for third-party vendors to provide these services to SCM. The Preferred Custodians may also discount or waive their fees for some of these services or pay all or a part of a third party's fees. The Preferred Custodians may also provide SCM with other benefits, such as occasional business entertainment of SCM personnel.

#### **SCM's Interest in Services Provided by the Preferred Custodians**

The availability of these services from the Preferred Custodians benefits SCM because SCM does not have to produce or purchase them. These services are not contingent upon SCM committing any specific amount of business to the Preferred Custodians in trading commissions or assets in custody. SCM may have an incentive to recommend that clients maintain their accounts with one of the Preferred Custodians, based on SCM's interest in receiving services that benefit SCM. This may potentially create a conflict of interest for SCM.

#### **Benefits Agreement with Charles Schwab & Company, Inc.**

SCM has entered into a Client Benefit Agreement (Agreement) with Charles Schwab & Company, Inc. (Schwab), whereby Schwab has agreed to provide assistance with technology-related expenses up to \$130,000 annually for 3 years starting August 1, 2016. The technology-related expenses include, but are not limited to, trading software and investment management technology from a third party. The expense is for services provided by the third party during the above mentioned 3 years. The Agreement is based upon the expectation that SCM maintain at least \$150 million in end client statement equity in Schwab client accounts over the next 3 years. SCM and Schwab reserve the right to enter into a new benefits agreement after the Agreement term. The Agreement is subject to modification or termination by Schwab, in its sole discretion, at any time 6 months or more from the date of the Agreement. Schwab may terminate the Agreement at any time in its sole discretion without advance notice if Schwab believes that the terms and conditions of the Agreement are inconsistent with applicable law or if SCM has breached the Agreement.

Envestnet | Tamarac (Tamarac) is the third-party trading and portfolio accounting software technology vendor selected by SCM. As a third-party vendor, Tamarac's investment management technology is not limited to the Schwab custody platform and supports many other custody platforms. Therefore, the use of Tamarac does not limit SCM from using other custody platforms if SCM decides, at its sole discretion, to do so.

The placement of equity assets and any associated transactions with Schwab will generate commissions retained by Schwab to defray Schwab's cost of the above detailed agreements. However, the volume of transactions effected by SCM for client accounts is done solely based on SCM clients' needs and not by any requirement to generate commissions to cover the cost of the agreements.

The fact that SCM relies on the commissions (and other fees) paid by our clients to Schwab to reimburse the cost of the Agreement, and to receive other benefits and services from Schwab, is a benefit to SCM because SCM does not have to pay for the services themselves. An investment advisor should recommend broker-dealers based exclusively on the best interests of its clients. The fact that SCM receives certain benefits from Schwab is clearly an incentive for us to recommend the use of Schwab to SCM clients rather than making such a decision based exclusively on the best interests of SCM clients. However, as stated above, the services, tools and benefits received from Schwab are used to assist SCM in providing investment management services that certainly benefit SCM clients.

### **Item 13 – Review of Accounts**

For those clients to whom SCM provides investment supervisory services, account reviews are conducted on an ongoing basis by SCM's Principals and/or Associated Persons. All clients are advised that it remains their responsibility to advise SCM of any changes in their investment objectives and/or financial situation, and impose, modify or add any reasonable restrictions to SCM's management of their accounts. All clients (in person, through e-mail or telephonically) are encouraged to review their financial planning issues (to the extent that SCM has been engaged to provide financial planning services), investment objectives and account performance with SCM on an annual basis.

Statements of each account are mailed at least quarterly to clients directly by the applicable brokerage firms, mutual funds, trust departments and/or financial institutions. SCM does not take possession of any assets of its clients and therefore does not issue its own statements of accounts to clients. However, as part of its quarterly investment management/advisory billing process, SCM does send to its clients (either directly itself, or through an authorized agent), quarterly performance reports. These reports are either mailed or e-mailed depending on the preference of each client. Reports are sent for informational purposes only, and do not, and should not be relied upon to, serve as a substitute for any reports distributed by either the client's mutual fund company or any monthly or annual statements sent by the broker/dealer that maintains custody of the client's account.

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

SCM receives an economic benefit from the Preferred Custodians in the form of support products and services made available to SCM and other independent investment advisors. These products and services, how they benefit SCM, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices). The availability of the Preferred Custodians' products and services is not based on SCM giving particular investment advice to its clients.

SCM does receive client referrals from unaffiliated and affiliated solicitors. SCM may pay solicitors a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from SCM's investment management fee, and may or may not result in any additional cost to the client. If the client is introduced to SCM by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of SCM's written disclosure statement as same is set forth on Part II of Form ADV, together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between SCM and the solicitor, including the

compensation to be received by the solicitor from SCM. Any affiliated solicitor of SCM shall disclose the nature of his/her relationship to prospective clients at the time of the solicitation.

#### **Scottrade Investment Management Advisor Access Program**

SCM receives client referrals through participation in the Scottrade Investment Management Advisor Access Program ("the Program"). The Program is designed to help investors find an independent investment advisor.

SCM pays Scottrade Investment Management ("SIM") a participation fee on all referred clients. The participation fee paid by SCM is a percentage of the fees the client owes to SCM. SCM does not charge clients more than its standard investment advisory fees for services to cover the fee paid to SIM to participate in the Program.

SCM and SIM are independent entities that are not affiliated with each other. SCM's participation in the Program does not reduce or eliminate its fiduciary duty to obtain best execution when selecting brokers to execute securities transactions on behalf of clients. SCM's participation in the Program may raise potential conflicts of interest due to the ongoing nature of SCM's relationship with clients who were referred to SCM by SIM.

#### **Schwab Advisor Network**

In the past, SCM received client referrals from Schwab through SCM's participation in Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent advisor. Schwab is a broker-dealer independent of and unaffiliated with SCM. Schwab does not supervise SCM and has no responsibility for SCM's management of clients' portfolios or Advisor's other advice or services. SCM pays Schwab a fee for client referrals we received through the Service. SCM's prior participation in the Service may raise potential conflicts of interest described below due to the ongoing nature of SCM's relationship with clients who were referred to SCM by Schwab.

SCM pays Schwab a Participation Fee on all referred client accounts maintained at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by SCM is a percentage of the fees the client owes to SCM or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. SCM pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to SCM quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by SCM and not by the client. SCM has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs SCM charges clients with similar portfolios who were not referred through the service.

SCM is required to pay Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees SCM generally would pay in a single year. Thus, SCM will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees are based on assets in accounts of SCM clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, SCM will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit SCM's fees directly from the accounts.

For accounts of SCM's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from SCM's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, SCM may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. SCM nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for SCM's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

#### **Item 15 – Custody**

Under government regulations, SCM is deemed to have custody of your assets if, for example, you authorize SCM to instruct the Preferred Custodian to deduct SCM advisory fees directly from your account or if you grant SCM authority to move your money to another person's account. The Preferred Custodian maintains actual custody of your assets. You will receive account statements directly from the Preferred Custodian at least quarterly. The statements will be sent to the email or postal mailing address you provided to the Preferred Custodian. You should carefully review these statements promptly when you receive them. SCM also urges you to compare the Preferred Custodian's account statements to the quarterly performance reports you receive from SCM.

#### **Item 16 – Investment Discretion**

SCM recommends equity, fixed income, exchange traded funds, options, annuities and mutual fund investments under written investment management agreements, which includes discretionary authority. Such discretionary authority, together with limited powers of attorney executed by SCM's clients, allows SCM consultants to determine, without specific client consent, (1) the securities to be purchased or sold, (2) the amount of securities to be bought or sold, (3) the commissions to be paid for each transaction processed. Clients may limit or amend SCM's discretionary authority by making a written request. While there are no other express limitations on the authority described, SCM requires prior written discretionary authority from its clients in the form of a contract.

SCM has clients where it does not have discretionary authority, typically these clients are corporate pension and profit sharing plans. The individuals participating in these plans can give SCM discretionary authority over their assets inside the plan by signing a contract.

**Item 17 – Voting Client Securities**

SCM exercises proxy voting authority over clients' securities, unless a client specifically requests differently. Brad Lewis is responsible for voting proxies in the best interest of SCM clients and will consult the proxy committee if necessary. SCM maintains records of all proxy voting and a client may contact SCM at any time to obtain their proxy voting record. A complete copy of SCM's Proxy Voting Policies and Procedures is available upon request at no charge.

**Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide clients with certain financial information or disclosures about SCM's financial condition. SCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## Privacy Policy Notice

As a registered investment adviser, SCM has a responsibility and fiduciary duty to protect the privacy of client information. SCM must comply with SEC Regulation S-P, which requires registered investment advisers to adopt policies and procedures to protect clients' non-public personal and financial information ("NPFI"). To comply, SCM holds both the firm and its employees to the highest standards of trust and fiduciary duty in the safeguarding and use of clients' NPFI. SCM is committed to maintaining the confidentiality of the information it collects from current, potential and former clients and therefore SCM adheres to the policies and practices described in this notice.

**Client Information:** In order to provide clients with personalized financial services, SCM requests non-public personal, financial and transactional information. SCM will collect this confidential information from clients directly through conversations, paperwork and correspondence so SCM can compile a full financial picture in order to best serve the client.

**Non-Disclosure of Client Information:** SCM maintains safeguards to comply with federal and state standards to safeguard each client's NPFI. SCM does not share any NPFI with any nonaffiliated third parties, except in the following circumstances:

- As necessary to provide services the client has requested or authorized, or to maintain and service the client's account;
- As required by regulatory authorities or law enforcement officials who have jurisdiction over SCM, or as otherwise required by an applicable law;
- To protect the confidentiality or security of the financial institution's records against fraud and for institutional risk control purposes; and
- To provide information to the firm's attorneys, accountants and auditors or others determining compliance with industry standards.

**Safeguarding Client Information:** SCM restricts access to NPFI to those employees who need to know such information in order to provide services to clients. SCM maintains physical, electronic and procedural safeguards to restrict the access to such information. Employees are prohibited, either during or after termination of employment, from disclosing NPFI to any person or entity outside SCM, including family members, except under the circumstances described above.

SCM's Privacy Policy remains in effect at all times, even after the client relationship is terminated.