

# **Schaller Investment Group, Inc.**

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## **Form ADV Part 2A – Disclosure Brochure**

March 31, 2017

This brochure provides information about the qualifications and business practices of Schaller Investment Group, Inc. ("SIG"). If you have any questions about the contents of this brochure, please contact us at (336) 774-1515. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Additional information about SIG also is available on  
the SEC's website at **[www.AdviserInfo.sec.gov](http://www.AdviserInfo.sec.gov)**

## ***Item 2 - Material Changes***

This Material Changes section, dated March 31, 2017, is an update to the March 8, 2016 version, which was our last annual amendment. Our full Disclosure Brochure may be requested, at no charge, by contacting Doug Schaller, Chief Compliance Officer, at (336) 774-1515 or [Doug@SchallerInvestmentGroup.com](mailto:Doug@SchallerInvestmentGroup.com).

### **Assets Under Management**

As of December 31, 2016, Schaller Investment Group, Inc. had a total of \$199,877,824 in assets under management, all of which were discretionary assets.

### **Fees and Compensation**

The minimum portfolio value has been increased from \$500,000, and is generally set at \$2,000,000. SIG may, at its discretion, make exceptions to the foregoing minimum, or negotiate special fee arrangements, where SIG deems it appropriate, in consideration of the circumstances.

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## ***Item 4 - Advisory Business***

### General Information

Schaller Investment Group, Inc. ("SIG") was formed in 1996 and provides portfolio management services to its clients. At the outset of each client relationship, SIG spends time with the client asking questions, reviewing the client's then-current investments, accessing investment experience, risk tolerance and other financial circumstances. SIG reviews its investment approach and strategy with each client to ensure that SIG's investment approach is suitable when taking into consideration the clients goals, objectives and expectations.

SIG generally requests that each client complete a Confidential Client Profile form, which includes the following:

- Current sources of income and expected changes to income in the future.
- Net worth including a general review of assets and debts.
- Client retirement plans.
- Tax information
- Client's investment experience, objectives and risk considerations.
- Any portfolio restrictions to which the client requires SIG to adhere.

While SIG would prefer a completed Confidential Client Profile form, some clients prefer to omit information they consider personal in nature. Furthermore, some clients return an incomplete form, in which case SIG will collect and complete the form with the client by phone. The client's financial profile will be discussed with them from time to time. Clients are instructed to notify, in writing, any significant changes to their income, net worth, risk tolerance or other changes that could affect the way in which SIG manages their account(s).

SIG does not provide financial or cash flow planning services, nor does it provide asset allocation services.

### Communication with SIG

SIG does not maintain a website. Clients must contact SIG by telephone, fax or through public or private postal service. While SIG does maintain a corporate email account, clients should understand that SIG has no obligation to respond in any way to such emails.

### Portfolio Management for Individual Accounts

At the beginning of a client relationship, SIG gathers information and performs research and analysis of a client's then-current investments, if necessary. Generally, before SIG formally starts managing a client's account, SIG will recommend that a client sell any security in which SIG is unfamiliar with or not comfortable holding in the clients account. An investment plan is developed and will be updated from time to time when requested by the client, or when determined to be necessary or advisable by SIG based on updates to the client's financial or other circumstances.

To implement the client's investment plan, SIG will manage the client's investment portfolio on a discretionary basis. As a discretionary investment adviser, SIG will have the authority to supervise and direct the portfolio without prior consultation with the client.

Notwithstanding the foregoing, clients may impose certain written restrictions on SIG in the management of their investment portfolios, such as prohibiting the inclusion of certain types of investments (e.g., “sin stocks”) in an investment portfolio or prohibiting the sale of certain investments held in the account at the commencement of the relationship. Each client should note, however, that restrictions imposed by a client may adversely affect the composition and performance of the client’s investment portfolios.

Clients should understand that his or her investment portfolio is treated individually, by giving consideration to each purchase or sale for the client’s account. When a decision has been made to purchase a security for SIG accounts, SIG considers the risk tolerance of each individual client before purchase. If circumstances change with respect to the risk of an individual security held in client accounts, and such security is determined to be no longer suitable for some accounts, the security will be sold for those specific accounts. For these and other reasons, such as tax considerations, liquidity needs, and the timing of account deposits and withdrawals, performance of client investment portfolios within the same investment objectives, goals and/or risk tolerance may differ and clients should not expect that the composition or performance of their investment portfolios would necessarily be consistent with similar clients of SIG.

#### Schaller Equity Partners

SIG may recommend that clients invest in Schaller Equity Partners, a North Carolina Limited Partnership (“the Partnership”). The Partnership is an investment partnership sponsored and managed by Schaller Equity Management, Inc. (“SEM, Inc.”), an affiliate of SIG. The Partnership’s investment objective is capital appreciation and primarily invests in common stocks and other equity investments. That said, the Partnership has discretionary authority to invest in a wide range of different types of securities. Please see ***Other Financial Industry Activities and Affiliations*** for more information on the Partnership.

#### Principal Owners

Douglas E. Schaller is the sole principal owner of SIG. Please see ***“Brochure Supplement”***, Appendix A, for more information about Mr. Schaller.

#### Type and Value of Assets Currently Managed

As of December 31, 2016, SIG managed \$199,877,824, on a discretionary basis, and no assets on a non-discretionary basis.

### ***Item 5 - Fees and Compensation***

#### General Fee Information

Fees paid to SIG are exclusive of all custodial and transaction costs paid to the client’s custodian, brokers or other third party consultants. Fees paid to SIG are also separate and distinct from the fees and expenses charged by mutual funds, ETFs (exchange traded funds) or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund’s prospectus or offering materials). The client should review all fees charged by funds, brokers, SIG and others to fully understand the total amount of fees paid by the client for investment and financial-related services.

### Individual Account Portfolio Management Fees

The fee assessed for the management of individual accounts is negotiated on a case-by-case basis. Fees are typically a fixed percentage, which is applied to the value of each account, without break points. If fees are negotiated with break points of declining fee percentages, SIG will not aggregate accounts to determine break points. The maximum fee typically assessed is 1.5% per year.

Currently, SIG is not actively seeking or accepting new clients. In certain circumstances, where a client's long-term investment goals appear to be aligned with the investment policies of the adviser, an exception to the stated policy of not accepting new accounts may be granted.

The minimum portfolio value is generally set at \$2,000,000. SIG may, at its discretion, make exceptions to the foregoing minimum, or negotiate special fee arrangements, where SIG deems it appropriate, in consideration of the circumstances.

Portfolio management fees are generally payable quarterly, in advance. If management begins after the start of a quarter, fees will be prorated accordingly. Fees are normally debited directly from client account(s), unless other arrangements are made.

Either SIG or the client may terminate their Investment Management Agreement at any time, subject to the 30-day written notice requirements, as stated in the agreement. In the event of termination, any paid, but unearned fees (fees are deemed to have been earned during the 30 day notice period), will be promptly refunded to the client, and any fees due to SIG from the client will be invoiced or deducted from the client's account prior to termination.

### Partnership Fees

The Partnership is assessed a fee by its manager, Schaller Equity Management, Inc. ("SEM, Inc."), which is disclosed to investors prior to investing. The fee charged by the Partnership is comprised of two components. An annual management fee of 0.4% of the value of the Partnership's assets is charged, and is assessed in arrears, on a quarterly basis. In addition, a performance fee of 15% is assessed annually, in arrears. Please see ***Performance Based Fees and Side by Side Management*** below for more information.

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

A performance fee arrangement is one in which a client compensates an adviser, at least in part, for its services by paying a percentage of the net profits of his/her investment portfolio. SEM, Inc., which is an affiliate of SIG, sponsors and manages the Partnership. SEM, Inc. charges performance-based fees on net profits of a client's partnership account annually. However, if the Partnership declines in value, no performance fee will be charged until prior losses have been recouped. This is known in the investment industry as a "high water mark".

Performance-based fee arrangements are only available to clients who meet the eligibility requirements of Rule 205-3 under the Investment Advisers Act of 1940. The minimum requirements under the rule state that the client generally is not eligible unless he/she has at least \$750,000 under management with SIG or has a net worth of at least \$1,500,000. Performance fees are calculated annually, in arrears, based on the net profits of each partners' account.

Because SEM, Inc. and SIG are both owned and managed by the same person (Mr. Schaller), the fact that SEM, Inc. charges the Partnership performance-based fees may create certain conflicts of interest. For example, performance-based fee arrangements may create an incentive for SEM, Inc. to favor the Partnership by placing trades for it before placing trades for non-performance fee based accounts. SIG has established procedures to help prevent such conflicts. For example, in the event that SEM, Inc. and SIG, collectively the "Managers", wish to execute trades in the same security for the Partnership and individual accounts, respectively, on the same day, the Managers will work each trade separately at the custodian where the accounts are held. Individual accounts are typically held at Charles Schwab & Co., Inc. ("Schwab"), while the Partnership is held at Goldman Sachs Execution & Clearing, LP ("Goldman"). Although Goldman acts as the custodian for the Partnership's assets, generally, the large majority of trading is executed through Wells Fargo Prime Services, LLC. If the trades are large enough, the Managers will divide the block of shares for each custodian into smaller blocks, and work them alternately between the two custodians. The result is that the two separate blocks will each share the results of trading throughout the day. Any advantage to one block or the other is purely incidental, and neither block will be specifically favored over the other.

### ***Item 7 - Types of Clients***

SIG serves individuals, pension and profit-sharing plans, corporations, trusts, estates and other pooled investment vehicles. With some exceptions, the minimum portfolio value eligible for conventional investment advisory services is \$2,000,000. Under certain circumstances and in its sole discretion, SIG may negotiate such minimums.

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

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

In accordance with its investment strategies, SIG generally selects common stocks, money market mutual funds, and fixed income securities issued by the US government, for client accounts. Additionally, while SIG has not invested in exchange traded funds "ETF's", SIG may choose to invest in these instruments in the future.

SIG concentrates most of its research efforts on the selection and ongoing monitoring of its common stock investments. In making selections of common stocks, SIG employs a fundamental long-term approach to security analysis and portfolio management. Fundamental analysis involves the review of the business and financial information about an issuer. Without limitation, the following factors generally will be considered:

- A security's market price relative to what SIG considers its true value "intrinsic value";
- Price-to-earnings ratios;
- Historical and potential growth of intrinsic value;
- Assessment of the quality of the business and its management

Fixed income investments, including cash, may be used as a strategic investment, as an instrument to fulfill liquidity or to add a component of capital preservation. SIG may evaluate and select individual bonds or bond funds based on a number of factors including, without limitation, credit, interest rate and duration risk. SIG generally considers the safety and return of capital as its

primary objective, rather than the interest rate or return *on* capital. For this reason, SIG generally prefers to invest in fixed income securities issued by the U.S. government.

SIG's investment approach entails an examination of fundamental operating, financial and industry conditions affecting each company whose securities are under consideration. SIG's main sources of investment research include: 1) general financial newspapers, magazines and industry specific periodicals; 2) corporate annual reports, prospectuses and other regulatory filings with the U.S. Securities & Exchange Commission; 3) corporate press releases; 4) inspection of corporate activities; 5) research prepared by others.

Portfolios are managed using a focused portfolio approach, rather than a diversified approach. Client portfolios will generally be concentrated among a relatively small number of securities (typically common stocks), generally between five and fifteen securities. Additionally, client portfolios will not be widely diversified across different industries. Clients should understand that when losses occur on individual securities in a focused portfolio they will often result in larger single security losses than that of a diversified portfolio.

The primary focus for individual accounts managed by SIG is to maximize long-term capital appreciation, rather than producing current or future investment income, i.e. common stock dividends or interest from fixed income securities.

Clients should make special note that, while the Partnership and individual client accounts may, at times, have some degree of commonality, there may be significant differences in the goals, objectives and risk tolerance factors between the Partnership and individual accounts. These differences affect the way in which individual accounts are managed, as compared to the Partnership. The Partnership has authority to make a broader range of investments that are either not suitable, or available, for individually managed accounts. Clients are advised that their account performance will likely not be comparable to that of the Partnership.

The Partnership may engage in strategies, such as, purchasing private placements, short selling, hedging, short-term trading, trading in certain foreign securities, commodities, futures, and derivatives, such as equity options. On the contrary, SIG generally does not engage in short-term trading strategies, or short-selling and hedging strategies for its individually managed accounts, primarily because SIG does not consider such strategies suitable for its individual accounts. Furthermore, SIG's individual accounts may not be able to participate in some types of investments, which are only available to the Partnership. For example, private placements have many restrictions as to the type of investor which may be eligible to invest. Some foreign investments may only be available to a single institutional fund which has been licensed to own securities in its jurisdiction.

The timing of purchases or sales of individual securities for the Partnership and individually managed accounts may differ. For example, the Partnership may purchase a security before individually managed accounts, until SIG performs more intensive research to determine its suitability for the accounts. For the above reasons, clients should recognize that their account performance likely will not, and should not, be comparable to that of the Partnership.

### Risk of Loss

While SIG attempts to manage risk to reduce potential losses, the fact is that all investments are subject to known, unknown and unknowable risks. Accordingly, there can be no assurance that



client investment portfolios will be able to meet their investment objectives and goals, or that investments will not result in a significant loss of money. Below is a description of some, but not all, of the known principal risks that client investment portfolios face.

*Management Risks.* While SIG manages client investment portfolios based on SIG's experience, research and proprietary methods, the value of clients investment portfolios will change daily based on the performance of the underlying securities in which they are invested. Clients should note that SIG generally does not manage client accounts to avoid such short-term fluctuations of the stock market or individual stocks. SIG may allocate a significant portion of a client's account to a particular industry in which an unanticipated significant event occurs, negatively impacting the industry which would result in a significant loss to a client's account. SIG may error in the assessment of risk of individual securities by SIG management. SIG's specific investment choices could significantly underperform relevant indexes.

*Private placements.* SEP may invest in private placements, which carry significant risk in that companies using the private investors to conduct securities offerings that are exempt from registration under the federal securities laws. By definition, it means that investors do not have access to public information, and that investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the startup phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued by means of private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are illiquid and cannot be readily converted to cash.

*Risks of Investments in money market mutual funds, ETFs and other investment pools.* As described above, SIG may invest client portfolios in money market mutual funds, ETFs and other public investment pools ("pooled investment funds" excluding the Partnership). Such investments are subject to risks associated with the markets in which they invest. In addition, pooled investment funds' success will be related to the skills of their particular managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

*Equity Market or Individual Investment Security Risks.* SIG will invest the majority of client assets directly into equity investments, primarily common stocks or into pooled investment funds that invest in the stock market. These risks include, without limitation, stock values will decline due to daily fluctuations in the markets, stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security's prospects. Additionally, there is "catastrophic event risk" that may have a significant material permanent negative impact to the stock market or individual securities held in client accounts. These include but without limitation; natural catastrophic events i.e. earthquakes, volcanic eruption, severe weather, meteoroid impact, tsunami etc. Man-made catastrophic events i.e. terrorism including nuclear weapons, acts of war, global thermal nuclear war, nuclear related accidents, financial crises, attack on vital information technology systems and Internet failure etc. Such catastrophic events could result in a 100% loss in value in one or more securities held in a client account as well as a significant loss in the value of other securities in the same account.

*Fixed Income Risks.* SIG may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes.

Fixed income investments are subject to certain risks. These risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity). Additionally, catastrophic events, as described above, could result in a 100% loss in value of some specific securities held in a client's account as well as a significant loss in the value of other securities in the same clients account.

*Foreign Securities Risks.* SIG will invest portions of client assets into individual securities, ETF's or other pooled investment funds that invest internationally. Foreign investments carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency. Furthermore, investing in foreign securities involves assuming political risk. What is considered a stable geographic area of the world today can become very unstable tomorrow. Investors face partial or complete confiscation of their investments due to political change and instability. Additionally, catastrophic events, as described above, could result in a 100% loss in value of some specific securities held in a client's account as well as a significant loss in the value of other securities in the same clients account.

*Activist Role.* Schaller Equity Partners ("the Partnership") may pursue an activist role in effectuating corporate change with respect to an investment. The costs in time, resources and capital involved in activist investments depend on the circumstances, which are only in part within the Partnership's control, and may be significant, particularly if litigation against the Partnership ensues. In addition, the expenses associated with an activist investment strategy, including potential litigation or other transactional costs, will be borne by the Partnership. These expenses may reduce returns or result in losses.

The success of the activist investment strategy may require, among other things: (i) that the Partnership properly identify portfolio companies whose equity prices can be improved through corporate and/or strategic action; (ii) that the Partnership acquire sufficient shares of the securities of those portfolio companies at a sufficiently attractive price; (iii) a positive response by the management of portfolio companies to shareholder engagement; (iv) a positive response by other shareholders to shareholder activism and the Partnership's proposals; and (v) a positive response by the markets to any actions taken by portfolio companies in response to shareholder activism. None of the foregoing can be assured to succeed.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or shareholders of the subject company, which may result in litigation and may erode, rather than increase, shareholder value; (ii) intervention of one or more governmental agencies; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in securities prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance or other change may seek to involve regulatory agencies in investigating the transaction or the Partnership and regulatory agencies may independently investigate the participants in a transaction, including the Partnership, as to

compliance with securities or other laws. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of shareholders and others with an interest in the subject company. Some shareholders may have interests which diverge significantly from those of the Partnership and some of those parties may be indifferent to the proposed changes. Moreover, securities that the Partnership believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Partnership anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a portfolio company's securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Partnership to dispose of all or any of its securities therein or to realize any increase in the price of those securities.

### ***Item 9 - Disciplinary Information***

SIG has no disciplinary events to report.

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

SIG may recommend that clients invest in Schaller Equity Partners, a North Carolina Limited Partnership (the "Partnership"). Clients should note that SEM, Inc. and the Partnership may charge fees or incur expenses for their services to clients which may indirectly benefit SIG. Clients should inquire with the Partnership and SEM, Inc. about these fees and expenses before investing, and should consider potential conflicts of interest raised by the relationships between SIG, SEM, Inc. and the Partnership before investing.

### ***Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading***

#### **Code of Ethics and Personal Trading**

SIG has adopted a Code of Ethics ("the Code"), the full text of which is available to you upon request. SIG's Code has several goals. First, the Code is designed to assist SIG in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940, SIG owes fiduciary duties to its clients. Pursuant to these fiduciary duties, the Code requires SIG associated persons to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits associated persons from trading or otherwise acting on insider information.

Next, the Code sets forth guidelines for professional standards for SIG's associated persons (managers, officers and employees). Under the Code's Professional Standards, SIG expects its associated persons to put the interests of its clients first, ahead of personal interests. In this regard, SIG associated persons are not to take inappropriate advantage of their positions in relation to SIG clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time SIG's associated persons may invest in the same securities recommended to clients. Under its Code, SIG has adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code's personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading and pre-clearance of certain types of personal

trading activities. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action as appropriate for violations.

#### Participation or Interest in Client Transactions

SIG maintains policies regarding participation in private placements and initial public offerings (IPOs), in order to comply with applicable laws and avoid conflicts with client transactions. If a SIG associated person wishes to participate in an IPO, or invest in a private placement, he or she must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer. If associated persons trade with client accounts (e.g., in a bundled or aggregated trade), and the trade is not filled in its entirety, the associated person's shares will be removed from the block, and the balance of shares will be allocated among client accounts in accordance with SIG's written policy.

### ***Item 12 - Brokerage Practices***

#### Best Execution and Benefits of Brokerage Selection

When given discretion to select the brokerage firm that will execute orders in client accounts, SIG seeks "best execution" for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, SIG may use, or recommend the use of, brokers who do not charge the lowest available commission in the recognition of research and securities transaction services, or quality of execution. Research services received with transactions may include proprietary or third party research (or any combination), and may be used in servicing any or all of SIG's clients. Therefore, research services received may not be used for the account for which the particular transaction was effected.

While there is no direct link between the investment advice SIG provides and participation in the institutional programs of any broker, SIG receives certain economic benefits from the programs. These benefits may include software and other technology that provides access to client account data (such as trade confirmations and account statements), facilitates trade execution (and allocation of aggregated orders for multiple client accounts), provides research, pricing information and other market data, facilitates the payment of SIG's fees from its clients' accounts, and assists with back-office functions, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of SIG's accounts, including accounts not held at the broker(s). The broker(s) may also make available to SIG other services intended to help SIG manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, the broker(s) may make available, arrange and/or pay for these types of services to be rendered to SIG by independent third parties. The broker(s) may discount or waive fees it would otherwise charge for some of these services, pay all or a part of the fees of a third-party providing these services to SIG, and/or the broker(s) may pay for travel expenses relating to participation in such training.

The benefits received through participation in the programs do not necessarily depend upon the proportion of transactions directed to the broker(s). The benefits are received by SIG, in part because of commission revenue generated for the broker(s) by SIG's clients. This means that the investment activity in client accounts is beneficial to SIG, because the broker(s) does not assess a fee to SIG for these services. This creates an incentive for SIG to continue to recommend the broker(s) to its clients. While it may be possible to obtain similar custodial, execution and other

services elsewhere at a lower cost, SIG believes that the broker(s) provides an excellent combination of these services.

#### Aggregated Trade Policy

It is SIG's policy, to the extent practical, to allocate investment opportunities to a particular client over a period of time on a fair and equitable basis relative to other clients. In addition, due to practicality, efficiency and cost, it is SIG's policy to generally execute trades as block trades (i.e., aggregating clients trading the same stock together for a single trade). Several block trades done on the same day and at different prices will be combined whereby the average price will be allocated to client accounts. Commissions on block trades for individual client accounts are generally determined based on the broker's standard fee schedule, and will not differ from commissions that would have been charged for separate account trades. SIG maintains a policy to allocate shares of block trades to client accounts fairly based generally on the following individual client conditions: suitability issues, account restrictions, available liquidity and tax status.

As discussed earlier in the section entitled ***Performance-Based Fees and Side-by-Side Management***, conflicts of interest in trading for SIG's individual client accounts and the Partnership are addressed in SIG's procedures.

#### ***Item 13 - Review of Accounts***

SIG's individually managed accounts are reviewed at least quarterly but may be reviewed more often if requested by the client, upon receipt of information material to the management of the portfolio, or at any time such review is deemed necessary or advisable by SIG. Also, portfolios are reviewed upon client request or upon receipt of information material to the management of a client portfolio, such as a change in a client's individual situation. Doug Schaller, SIG's President, reviews all accounts.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account as well as transactions in each account, including fees paid from an account. Account custodians also provide prompt confirmation of all trading activity, and year-end tax statements, such as 1099 forms. In addition, SIG provides at least an annual report for each managed portfolio. This written report normally includes a summary of portfolio holdings, income summary, realized gains and losses and performance results. Clients are advised that while these reports can be a useful guide for tax preparation, only original confirmations and statements from the custodian should be used to prepare tax information. Additional reports are available at the request of the client.

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

As noted above, SIG may receive some benefits from particular brokers, based on the amount of client assets held at the broker(s). Please see ***"Brokerage Practices"*** for more information. However, neither the broker(s), nor any other party, is paid to refer clients to SIG.

### ***Item 15 - Custody***

It is the custodian's responsibility to provide clients with confirmations of trading activity, tax forms and at least quarterly account statements. Clients are advised to review this information carefully, and to notify SIG of any questions or concerns. Clients are also asked to promptly notify SIG if the custodian fails to provide statements on each account held.

From time to time and in accordance with SIG's agreement with clients, SIG will provide additional reports. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy. At times there may be small differences due to the timing of dividend reporting and pending trades.

### ***Item 16 - Investment Discretion***

As described above under "**Advisory Business**", SIG manages portfolios on a discretionary basis. This means that after an Investment Plan is developed for the client's investment portfolio, SIG will execute that plan without specific consent from the client for each transaction. For discretionary accounts, a Limited Power of Attorney ("LPOA") is executed by the client, giving SIG the authority to carry out various activities in the account, generally including the following: trade execution; the ability to request checks on behalf of the client; and, the withdrawal of advisory fees directly from the account. SIG then directs investment of the client's portfolio using its discretionary authority. The client may limit the terms of the LPOA to the extent consistent with the client's investment advisory agreement with SIG and the requirements of the client's custodian. The discretionary relationship is further described in the agreement between SIG and the client.

### ***Item 17 - Voting Client Securities***

With respect to securities selected on behalf of the client in a managed account or recommended to a client, SIG may vote proxies where required under client agreements. SIG seeks to vote proxies in the best interest of the client(s) holding the applicable securities. In voting proxies, SIG considers factors that SIG believes relate to the client's investment(s) and factors, if any, that are set forth in written instructions from the client.

In general, SIG believes that voting proxies in accordance with the following guidelines, with respect to such routine items, is in the best interests of our clients. Accordingly, SIG generally votes for:

- The election of directors (where no corporate governance issues are implicated);
- Proposals that strengthen the shared interests of shareholders and management;
- The selection of independent auditors based on management or director recommendation, unless a conflict of interest is perceived;
- Proposals that SIG believes may lead to an increase in shareholder value;
- Management recommendations adding or amending indemnification provisions in charter or by-laws; and
- Proposals that maintain or increase the rights of shareholders.

SIG will generally vote **against** any proposals that SIG believes will have a negative impact on shareholder value or rights. If SIG perceives a conflict of interest, SIG's policy is to notify affected clients so that they may choose the course of action they deem most appropriate.

A copy of our complete policy, as well as records of proxies voted; are available to clients upon request. As required under the Advisers Act, such records are maintained for a period of five (5) years.

***Item 18 - Financial Information***

SIG does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore has no disclosure under this item.

# **Form ADV Part 2B Brochure Supplement**

for

**Douglas E. Schaller**

of

**Schaller Investment Group, Inc.**

324 Indera Mills Court  
Winston Salem, North Carolina 27101

(336) 774-1515

**March 31, 2017**

This brochure supplement provides information about Doug Schaller, and supplements the Schaller Investment Group, Inc. ("SIG") brochure. You should have received a copy of that brochure. Please contact SIG at (336) 774-1515 if you did not receive SIG's brochure, or if you have any questions about the contents of this supplement.

Additional information about Doug Schaller is available on the SEC's website at [www.AdviserInfo.sec.gov](http://www.AdviserInfo.sec.gov).

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## ***Educational Background and Business Experience***

Douglas E. Schaller (year of birth 1959) is President of Schaller Investment Group, Inc. SIG was formerly named Blue Ridge Investment Management, Inc., a company that Mr. Schaller formed in 1996. Mr. Schaller began his career in the investment business in 1982 as a registered representative in the Jacksonville, Florida office of The Robinson-Humphrey Company, an Atlanta-based regional securities firm. In 1985 Mr. Schaller joined (as a registered representative) the Jacksonville, Florida office of Deutsche Bank Alex Brown, formerly Alex Brown & Sons Incorporated, an international investment banking and securities firm based in Baltimore, Maryland. In 1991 Mr. Schaller transferred to the Winston-Salem, North Carolina office of Alex Brown & Sons and, among other responsibilities, managed discretionary equity and balanced investment portfolios. Mr. Schaller was promoted to Vice President, Private Client Division, in 1994.

Mr. Schaller graduated from Stetson University in Deland, Florida in 1981 where he received a Bachelor of Business Administration degree with a major in accounting. From 1981 to 1982 Mr. Schaller was employed as a staff accountant in the Audit Department of the Jacksonville, Florida office of Peat Marwick Mitchell & Co., an international public accounting firm and predecessor to KPGM Peat Marwick LP.



### ***Disciplinary Information***

There is no disciplinary information to report regarding Mr. Schaller.

### ***Other Business Activities***

SIG may recommend that clients invest in Schaller Equity Partners, a North Carolina Limited Partnership (the "Partnership"). The Partnership is an investment partnership sponsored and managed by Schaller Equity Management, Inc. ("SEM, Inc."), an affiliate of SIG. The Partnership's investment objective is capital appreciation and it invests in common stocks and other investments. Clients should note that SEM, Inc. and the Partnership may charge fees or incur expenses for their services to clients which may indirectly benefit SIG. Clients should inquire with the Partnership and SEM, Inc. about these fees and expenses before investing, and should consider potential conflicts of interest raised by the relationships between SIG, SEM, Inc. and the Partnership before investing.

In addition to his activities with SIG, SEP and SEM, Mr. Schaller serves as a member of an advisory board for a privately-held company. In his role, he provides periodic business and operational advice to the management of the company. Although Mr. Schaller may be compensated for his time and efforts, it does not pose a conflict of interest, as the time he spends in the role is relatively limited, and the company is not publicly traded.

### ***Additional Compensation***

As stated above, Mr. Schaller may receive compensation for his time and efforts from a privately-held company for which he serves on an advisory board.

### ***Supervision***

As the sole owner of SIG, Mr. Schaller supervises all duties and activities of the firm, and is responsible for all advice provided to clients. His contact information is on the cover page of this disclosure document.