

# Investment Adviser Disclosure Brochure

## Form ADV Part 2A

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This Part 2A of Form ADV ("Brochure") provides information about the qualifications and business practices of Millennium Investment Services ("MIS") for the use of clients and prospective clients. If you have any questions about the contents of this brochure, please contact us at (818) 902-5544 or via e-mail at [tony@minvs.com](mailto:tony@minvs.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

MIS is an investment adviser registered with the SEC; however such registration does not imply a certain level of skill or training, and no inference to the contrary should be made.

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

## Item 1 - COVER PAGE

Please refer to previous page.

## Item 2 - Material Changes

The previous version of this Brochure for Millennium Investment Services (“MIS” or the “Firm”) was dated August 31, 2016. Below is a summary of all material changes made:

**Item 5 – Fees and Compensation:** changed information under “Performance Based Fees” to provide a summary of the new performance program.

**Item 6 – Performance Fees and Side by Side Management:** modified details relating to how performance fees are charged such that, investments in certain equity securities and covered calls will be subject to a performance fee, along with IPOs and SPOs that were purchased for a client’s account under the firm’s previous performance fee program and that are still held in the account. In addition, the amount of the performance fee has been lowered to ten percent (10%) and the calculation methodology has also changed. Importantly, the assets subject to the modified performance fee will also be included in the calculation of the Firm’s asset based fee charged for investment management services. Also revised the disclosures regarding the conflicts pertaining to performance fee arrangements and how the firm addresses such conflicts.

**Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss:** removed disclosures pertaining to the IPO and SPO strategies, as MIS is no longer offering these strategies.

**Item 10 – Other Financial Industry Activities and Affiliations:** removed language referencing IPOs and SPOs.

**Item 12 – Brokerage Services:** removed disclosures pertaining to the brokers used for purchasing IPOs and SPOs. Also revised language summarizing MIS process for the aggregation and allocation of transactions to bring it in line with firm policies and procedures and to clarify steps taken if a less than meaningful amount of shares is obtained in an aggregated trade. In addition, the disclosures on trade allocation of IPOs and SPOs were removed since the firm is no longer purchasing IPOs and SPOs for its clients.

Since this Brochure has been changed materially from the previous version, MIS strongly encourages clients and prospective clients to review this Brochure in its entirety very carefully and to call us with any questions you may have.

Pursuant to SEC Rules, the Firm will ensure that clients receive a summary of any materials changes to this Brochure within 120 days of the close of the Firm’s fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as the Adviser experiences material changes in the future, we will send you a summary of our “Material Changes” under separate cover.

Currently, the Firm’s Brochure may be requested by contacting Anthony Reed, the Firm’s Chief Compliance Officer, at (818)902-5544 or [tony@minvs.com](mailto:tony@minvs.com). Information about the Firm is also available via the SEC’s web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site provides information about any persons affiliated with Adviser who are registered, or are required to be registered, as investment Adviser representatives of Adviser.

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## Item 4 - Advisory Business

### A. Description of Firm

Millennium Investment Services (“MIS”) is a Los Angeles-based investment management firm that has been providing investment advisory services since 1995. Anthony M. Reed is the founder and President and has been in the financial services industry since 1994. MIS provides discretionary and non-discretionary investment advisory services (as more fully described below) to individuals, high net worth clients, pension and profit sharing plans, trusts, estates, corporations, and other types of business entities.

MIS is currently registered with the SEC as an investment adviser and is a California corporation. MIS conducts business primarily in California.

### B. Principal Owners

MIS is 100% owned by Mr. Anthony Reed, who serves as its President and Chief Compliance Officer.

Effective December 30, 2015, MIS founder Anthony Reed has purchased all shares of MIS and all interests of MIS Capital Management, LLC (the adviser to the MIS Equity Strategies, LP fund) and MIS Partners, LLC (the General Partner of the MIS Equity Strategies, LP fund). Mr. Reed is the sole owner of all three entities. Mr. Scott Weiss, Mr. Mitchell Weiss and Mr. James Walker are no longer owners, related persons or affiliates of MIS. These purchases by Mr. Reed did not amount to a purchase of 25% or more of the interests of any of the three entities and therefore did not result in a change in control at any of those entities.

### C. Types of Advisory Services Offered

MIS currently offers different investment strategies that pursue an overall growth investment objective, mainly utilizing both U.S equity securities and mutual funds. We invest client assets in other securities, such as exchange traded funds (“ETFs”), options, pre-IPOs (defined in Item 8 below), and private placements if we determine such investments fit within the objectives of each strategy and our clients. Because the strategies MIS offers are mainly invested in equity securities, and due to the volatile nature and the risks associated with equity securities, the actual return and value of a client’s account can fluctuate and at any point in time may be worth more or less than the amount originally invested. Please refer to Item 8 for further information on our methods of analysis and investment strategies, including details on the specific risks associated with these strategies.

#### 1. Financial Planning Services

MIS’ financial planning services are designed to provide the client with a detailed analysis of steps the client may wish to consider within their investment portfolio in order provide for their long-term needs. To begin this process, MIS typically interviews the client and requests documents and information to gather certain necessary information, including pertinent documentation in order to assess the client’s current financial situation and anticipated investment positions and objectives. Such information may include, but is not be limited to current and anticipated income, expenses, income tax levels, investment and non-investment assets and liabilities, investment risk tolerance, personal goals and objectives, existing

insurance policies, business interests, and any other necessary financial and personal information. MIS will at all times rely upon the information provided by the client and will have no liability for the client's failure to provide accurate and complete information.

Taking into account the client's goals, risk tolerance and long-term objectives, MIS will analyze and recommend appropriate investment strategies and allocation of assets if necessary to achieve optimum overall results for the long-term.

The client is under no obligation to implement any recommendations provided. Should the client decide to follow MIS' recommendations, typically the investment services that comprise the financial planning advice are offered through MIS. As discussed below, clients should realize that such recommendations could represent a potential conflict of interest since MIS representatives may receive fees, compensation or other concessions for these services.

## 2. Investment Management Services

The first stage of MIS' investment management services typically involves the collection of information about a client, including a client's investment objectives, risk tolerance, investment guidelines, time horizons and other important and necessary information relating to the client's assets to be managed by MIS. MIS relies upon the information provided by the client to customize its investment management services to the client. MIS typically conducts an in-person or telephone interview with each client in connection with the onset of the client relationship. It is the client's responsibility to notify MIS at any time there are changes to a client's investment objectives, risk tolerance, investment guidelines, time horizons and other important information.

In connection with providing investment management services to a client, each MIS client enters into an advisory services agreement ("Advisory Agreement") whereby MIS is granted (unless otherwise noted) a limited power-of-attorney with discretionary trading authority to effect investment transactions involving client's account, including the full power and discretion to buy, sell, and trade in securities, investments and strategies provided by MIS. The discretion granted to MIS will be exercised without prior consultation with client and shall include, without limitation, the right to decide what investments to make, when to make them and when to sell them, and authorization to give instructions in furtherance of such trading authority to brokers, dealers and/or other parties necessary to effect such transactions on behalf of the client, all in accordance with MIS' investment strategy. Note that certain private securities transactions are done on a non-discretionary basis and, in such cases, the client will enter into a subscription or other investment agreement directly with the issuer of the private securities.

Clients have the ability to leave standing instructions so that MIS will refrain from investing in particular securities or types of securities, or invest in limited amounts of securities; it is the client's responsibility to notify MIS at any time there are changes to any such standing instructions. Clients may contact MIS during normal business hours to discuss the client's account, financial situation, or investment needs.

## 3. Concierge Services

MIS offers one or more of the following concierge services as mutually agreed upon with the client and pursuant to the terms outlined within client's Advisory Agreement: retirement planning, personal security analysis, trustee services and/or business management. MIS

provides assistance to the client by coordinating the agreed-upon concierge activities with the Client and any third parties, specialists, or contractors.

*D. Information Relating to All MIS Services*

1. Gathering Individual Client Information

Portfolios are designed for each client based on the client's own needs, circumstances, expectations and tolerance of risk. Clients are encouraged to contact MIS during normal business hours to discuss their financial situation, investment needs or questions related to their account(s).

Clients will receive from their custodian/brokerage firm timely confirmations and at least quarterly statements containing a description of all transactions and all account activity. The client will retain rights of ownership of all securities and funds in the account to the same extent as if the client held the securities and funds outside the program. In addition to custodial statements, MIS sends detailed quarterly reports to the client.

Account management is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income). To achieve the client's investment goals and objectives, MIS offers a mixture of equity, fixed income securities, including U.S equity securities and mutual funds, ETFs, and options, and, as applicable, private securities (i.e. alternative investments) such as pre-IPOs (defined in Item 8 below) and private placements with varying risk tolerances to comprise a client's portfolio.

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

*E. Assets Under Management*

As of January 16, 2016, the following represents the amount of client assets under management by MIS on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$86,931,001
Non-discretionary	\$4,830,294
TOTAL:	\$91,761,295

**Item 5 - Fees and Compensation**

*A. Financial Planning Services*

Financial planning fees are charged on an hourly basis, ranging from \$150-\$250 per hour, depending on the nature and complexity of each client's circumstances. An estimate for total hours may be determined at the start of the financial planning advisory relationship and a fixed fee may be quoted (as determined in MIS' sole discretion). Financial planning fees are due and payable upon completion of the Financial Plan.

## B. Investment Management Services

The annual fee charged for investment management services varies based on the general orientation of the holdings of a client account and its classification under one of the three categories below, as determined in MIS' discretion. The annual fee is calculated as follows, based on the market value of the assets in the client account as of the last business day of the applicable calendar quarter (please refer to Item 5.5 "Additional Information Regarding Our Fees" for information on how market value of assets is determined):

### Short Term / Money Market Accounts

- Accounts less than \$1,000,000, the annual fee is 0.25%
- Accounts greater than \$1,000,000, the annual fee is 0.20%

### Fixed Income Accounts

- Accounts less than \$500,000, the annual fee is 0.80%
- Accounts greater than \$500,000 the annual fee is 0.50%

### Equity Accounts

- Accounts less than \$500,000, the annual fee is 1.25%
- Accounts between \$500,000 and \$1,000,000, the annual fee is 1.00%
- Accounts greater than \$1,000,000, the annual fee is 0.40% - 1.00% (the specific fee rate for accounts of this size are determined at the discretion of MIS).

The above fees are subject to an overriding minimum annual fee of \$2,000 for any full calendar year. A minimum account size of \$500,000 is required. This account minimum may be negotiable at the discretion of MIS, in which case an alternate fee structure will be mutually agreed upon by MIS and the client.

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

## C. Concierge Services

Fees for Concierge Services are charged on an hourly basis, at the rate of \$260 per hour, depending on the nature and complexity of the concierge services being provided. These fees may be negotiable at the discretion of MIS.

## D. Performance Based Fees

MIS charges certain clients that invest in the MIS performance fee program, which includes investments in equity securities, ETF's and covered call transactions tied to those securities, a performance-based fee on aggregate realized and unrealized capital gains and losses. See Item 6 for important detailed information.

## E. Additional Information Regarding Our Fees

Clients should understand that the advisory fees described in the sections above do not include certain charges imposed by third parties such as custodial fees, mutual fund fees and expenses,

and private fund management and incentive fees. Client assets also may be subject to transaction costs, retirement plan administration fees (if applicable), deferred sales charges on mutual funds initially deposited in the account, 12b-1 fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Client assets invested in mutual funds will be subject to certain fees and expenses imposed directly by mutual funds to their shareholders, which shall be described in each fund's prospectus, which is available through MIS upon request. These fees will generally include a management fee, other fund expenses, and a distribution fee. If the sponsor also imposes sales charges, a client typically pays an initial or deferred sales or surrender charge.

Client assets invested in hedge funds or other private funds are also subject to management fees, performance fees and other expenses as described in each fund's offering materials. These fees and expenses are separate from and in addition to the fees charged by MIS.

Clients should carefully review the fees charged by any mutual fund, hedge funds or other private funds in which the client's assets are invested, together with the fees charged by MIS to fully understand the total amount of fees to be paid by the client and in order to evaluate the advisory services provided.

When determining market value of an account for purposes of calculating advisory fees, MIS has adopted the following policy: For all publicly traded securities held in client accounts, MIS obtains daily prices from the client's custodian. In cases where a market price is not readily available (e.g., pre-IPOs and private placements) and/or provided by the custodian for a security held in a client's account, MIS shall determine the security's valuation in good faith and in a manner that objectively assesses the security's "fair value" (i.e., the amount that MIS might reasonably expect to receive for the security upon sale) based on a consideration of all available facts and information (which generally includes, among other things, the valuation as provided by the operator or issuer of the holding) in accordance with MIS' written valuation procedures.

With respect to certain pre-IPOs and private placements held by MIS clients and also held by MIS Equity Strategies, LP, a private fund managed by MIS' affiliate, MIS Capital Management, LLC ("MIS Capital"), MIS will rely on the valuations prepared by an unaffiliated third party valuation firm retained by MIS Capital to review the valuations of such pre-IPOs (see Item 8 for additional information regarding pre-IPOs) and private placements to provide an independent opinion as to whether the values used by MIS Capital appear reasonable based on facts and circumstances available at the time of the review. This third party valuation will occur once annually. In the event that MIS believes that the private security valuations used by MIS to calculate fees were overvalued, MIS will provide a refund of the management fees that were overcharged to the effected clients.

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



Payment of fees may be made directly by the client, or the client may authorize the custodian holding client funds and securities to deduct MIS' advisory fees directly from the client account in accordance with statements prepared and submitted to the custodian by MIS. The custodian will provide periodic account statements to the client. Such statements will reflect all fee withdrawals by MIS.

Fees may be negotiable at the discretion of MIS. In addition, for certain family and friends of MIS, MIS, in its sole discretion, may reduce or waive fees in their entirety.

Please be aware that lower fees for comparable services may be available from other sources.

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

### **A. MIS Performance Fee Program**

The MIS performance fee program ("Performance Fee Program") is available for the portfolios of clients who are interested and who meet suitability requirements and meet the definition of a "qualified client"<sup>1</sup> under Rule 205-3 of the Investment Advisers Act of 1940 ("Advisers Act") to enter into such transactions. The Performance Fee Program involves participation in equities purchased directly on the open market, ETFs and covered call positions tied to those securities. Clients have the choice whether to participate or not in the Performance Fee Program. MIS maintains discretion for selecting the investments in the Performance Fee Program, without needing client approval.

The Performance Fee Program has two distinct categories of investment. They are as follows:

1. Equities – These are equities purchased in the open market. Investments in this Equities category will only be made available to clients who are eligible to be assessed a performance fee. The trading decisions relating to this category will be determined by Mr. Reed, and the frequency and size of such trading cannot be predicted. Nevertheless, MIS will allocate trades in this Equities category in a fair and equitable manner, in accordance with the Firm's written aggregation and allocation policies and procedures.
2. Covered Calls – This category specifically only includes the trading of ETFs that are intended to (a) be held indefinitely and (b) have call options sold against those ETF positions. The ETFs used for these purposes are typically, but are not limited to, ETFs that track the Russell 2000, the S&P 500 and the Nasdaq 100 indices.

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<sup>1</sup> The term *qualified client* means: (i) A natural person who, or a company that, immediately after entering into an advisory contract has at least \$1,000,000 under the management of the investment adviser; or (ii) A natural person who, or a company that, the investment adviser reasonably believes prior to entering into the contract, either has a net worth of more than \$2,000,000, exclusive of primary residence and net of any debt secured by Client's residence taken out in the last 60 days except for purchase of the residence, or is a qualified purchaser as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 at the time the contract is entered into; or (iii) A natural person who immediately prior to entering into the contract is either an executive officer, director, trustee, general partner, or person serving in a similar capacity, of the investment adviser or an employee of the investment adviser (other than a clerical worker) who participates in the investment activities of such investment adviser, and has performed investment activities for at least 12 months. Notably, clients who met the definition of "qualified clients" prior to the definitional change are grandfathered from these new requirements which went into effect in May 2012.

Participation in this Covered Call category of investment is not limited to those clients that are eligible to be assessed a performance fee. Rather, participating clients are those that have chosen, after consulting with MIS, to have such covered call positions represent a certain percentage place in their overall portfolio allocation. This percentage varies by client, and is a result of the aforementioned consultation. Unless a change to a client's strategic portfolio allocation is warranted (as jointly determined by the client and MIS), the percentage of a client portfolio a client has invested in this Covered Call category of investment is expected to remain consistent (subject to fluctuations due to investment performance prior to periodic rebalancing). Thus, since that amount is known for each client, there is no potential conflict of interest on MIS' part when it comes to allocating investment dollars between "qualified" and "non-qualified" clients.

It should be noted that covered call positions (the sale of call options against a long equity position) will from time to time, be entered into in relation to the Equities categories of investment within the Performance Fee Program mentioned above. In those instances, such covered calls would not be considered part of the Covered Call category of the Performance Fee Program and would fall under the parameters specific to the Equities category.

In addition to the above types of securities, any IPOs and SPOs (initial and secondary public offerings) that were purchased for a client's account under the firm's previous performance fee program that are still held in the account, will be included in the performance fee calculation as described herein. However, the Firm will no longer be buying IPOs and SPOs for clients.

#### *B. Performance Fee Calculations*

For qualified clients who elect to participate in the Performance Fee Program, MIS will assess performance fees as follows: All Performance Fee Program trading activity (which includes, among other things, the receipt of dividends and any gains and losses from option trades that are done in connection with the originally purchased shares) in participating client accounts from December 1 through November 30 of each year will be aggregated. An aggregate total of all realized gains and losses, unrealized gains and losses, and dividend income related to the Performance Fee Program will be computed, including any unrealized gains or losses in existence as of November 30. If this calculation results in a net gain, that gain will be offset by any accumulated net losses the account sustained in this program from prior years. Any resultant net gain will be subject to a ten percent (10%) performance fee, charged to the client within 30 days of the end of the period. If such calculations result in a net loss, that loss will be carried forward and included in the calculation of performance fees charged to a client in the Performance Fee Program for the following year.

The performance fee is in addition to the asset based fee charged by MIS for investment management services, which means that assets subject to the performance fee also will be included in the calculation of the asset based fee charged by MIS.

There are conflicts of interest surrounding performance fees, which are outlined below. Also, MIS believes it's important to note that the fees charged by us may be higher or lower than fees charged by other advisers for comparable services. Therefore, clients should carefully review and consider all fees charged by MIS, along with applicable third party fees (see Item 5 above) to fully understand the total amount of fees to be paid and to evaluate the services being provided.

### *C. Conflicts of Interest*

Clients should understand that certain conflicts of interest exist due to performance fee arrangements, which include the fact that performance fee arrangements can create an incentive for MIS to make investments that are more risky or more speculative than might be the case in the absence of a fee based on performance. In addition, charging performance based fees could incentivize MIS to trade more frequently.

As described above, with respect to certain client relationships, MIS provides advisory services for a fixed fee, hourly charges and/or based upon a percentage of assets under management, in accordance with SEC Rule 205(a)(1) and applicable state law. Notably, accounts that are managed in the same style may not be managed the same way due to the client's overall investment objectives and guidelines, account restrictions, asset size, and discretion of the investment professional assigned to the account.

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

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

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

MIS does not have any minimum requirements (either in the form of fees or asset size) for its Financial Planning Services and/or Concierge Services.

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

#### *A. Methods of Analysis*

MIS uses a variety of analytical information to assist with its security analysis. Generally, such information includes fundamental and technical analysis. The primary sources of information used by MIS include market news reports, financial publications, outside research reports, prospectuses, and interpretation of exchange market data.

The investment strategies MIS pursues on behalf of clients may include, depending on each client's risk tolerance and overall investment objectives, long- and short-term purchases, trading, short sales, trading on margin, and option trading including covered options, uncovered options or spreading strategies. MIS may recommend specific investments to increase sector weighting and/or dividend potential, or may recommend employing cash positions as a possible hedge against market movement which may adversely affect a client's portfolio. Additionally, MIS may recommend selling positions for reasons that include, but are not limited to, harvesting capital gains or losses, business or sector risk exposure to a specific security or class of securities, overvaluation or overweighting of the position(s) in a client's portfolio, change in the risk tolerance of the client, or any risk deemed unacceptable for the client's risk tolerance.

In structuring investment portfolios, MIS focuses its attention on the allocation of assets among a variety of asset classes. Asset classes can be as general as cash, fixed-income and equities, then can be broken down into much smaller sectors of investment, including, but not limited to,:

#### Fixed Income

- Federal and municipal bonds of varying maturities
- Corporate bonds of varying maturities and ratings

#### Equities

- Domestic large cap, small cap, value and growth
- International equities from developed and emerging markets
- Sectors, such as technology, finance, healthcare, real estate, etc.

MIS' analysis generally includes a combination of charting, fundamental, technical, and cyclical factors. There are exceptions to this general approach where, for a variety of reasons, traditional fundamental analysis is not practicable. See additional details below in this Item 8.

#### *B. Investment Strategies*

MIS' core investment strategy is to utilize mutual funds, broad market ETFs, covered call positions relating to broad market indices and occasionally individual equity, covered call and fixed-income securities, in order to construct a well-diversified portfolio.

For clients who express an interest in moving outside of that core strategy, MIS recommends additional strategies as further described below.

#### Covered Call Writing

Covered call writing is a risk-mitigation, hedging technique. This strategy is designed to utilize options in a manner that mitigates risk and speculation. It involves buying a stock and simultaneously selling a call option against that stock. This structure effectively enters into a contractual obligation to sell our stock to the option buyer (also called the "speculator") for a specified price during a specified period of time.

Notably, covered call writing is not a loss prevention strategy, since the stock can decline below the break-even price. If the price of a covered stock falls below break-even, MIS will have to decide whether to (a) sell the stock for a loss, (b) keep the stock in the hope that it goes back up, or (c) sell another call option against it, thereby reducing the cost basis further as we wait for the new option period to run its course. Note that MIS' covered call strategy may not effectively provide sufficient downside protection, and there is no consensus among academics that covered call writing is effective for this purpose. Other option strategies may be more effective or appropriate for certain hedging purposes.

MIS includes Covered Calls in the portfolios of those clients that are interested in participating, and who meet the suitability requirements to enter into such transactions. The Covered Call program is discretionary, and MIS determines which clients participate in each Covered Call investment.

## Pre-IPOs<sup>2</sup> and Private Placements

From time to time, MIS will recommend investments in pre-IPOs or in private funds that invest in pre-IPOs (a “Pre-IPO Fund”) and private placement investments. These investments are not traded on any public market and there is typically no ability for the purchaser of a pre-IPO or private placement to sell such an investment. In addition, pre-IPOs and private placements are typically subject to transfer restrictions which require permission of the issuer or another third party before such an investment may be sold to another interested purchaser. Additionally, pre-IPOs usually have restrictions and/or required holding periods attached to these shares, which limit the purchaser’s ability to sell the shares once the issuing company has its initial public offering and the company’s shares are publicly traded. This lock up period is usually 6 months after the initial public offering. Also, if the pre-IPO shares are held in a Pre-IPO Fund, there could be additional selling restrictions imposed by the Pre-IPO Fund. Clients should be aware that the limitations/restrictions create a potential for risk of loss that should be considered prior to investment.

Due to the nature of the pre-IPO, Pre-IPO Fund and private placement opportunities and because limited information is typically available about these types of investments, the due diligence that MIS is able to perform on pre-IPO opportunities and some private placements is limited. Additionally, there is frequently a short period of time between the time MIS learns of a pre-IPO or private placement investment opportunity and the time by which MIS must express interest in investing in such an opportunity. As a result, MIS’ typical due diligence process with respect to these investment opportunities consists of a combination of the following: (i) a conference call with issuer management regarding the investment opportunity, (ii) participation in webinars where issuer information is presented to interested potential investors, (iii) review of the offering documents relating to investment in the issuer, (iv) consideration of the reputation of the deal source and Registrants’ personal knowledge and experience with the issuer based on prior Private Investments, (v) review the issuer’s website and media articles about the issuer, and (vi) additional electronic research of the issuer and the individuals on its management team. In addition, MIS will seek to obtain physical evidence that all pre-IPO shares being sold to investors in a Pre-IPO Fund can be accounted for, in the name of the Pre-IPO Fund. Preferably, this evidence will take the form of actual share certificates issued in the name of the Pre-IPO Fund, but there is no guarantee that MIS will actually receive such evidence of ownership.

MIS has adopted policies and procedures pertaining to performance of due diligence on investment opportunities. The policies and procedures outline the areas that MIS reviews, such as corporate structure, industry and financial information, technology, compliance, and products and services. Certain additional due diligence areas pertaining to private funds include review of offering documents, considerations of a fund’s service providers, historical performance, types of underlying investments, and risks.

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<sup>2</sup> As used in this Brochure, the term “pre-IPO” refers to a security of an issuer that has not yet gone public, but that is expected to do so within the next few years, if not sooner. The term “Pre-IPO Fund” refers to an entity that has been established for the purpose of holding shares of pre-IPOs. Shares of pre-IPO companies are acquired by the issuer of the Pre-IPO Fund from a variety of sources, which can include, but are not limited to, employees or vendors of the company that is expected to go public. The issuer of the Pre-IPO Fund then bundles these shares and sells them to investors in their Pre-IPO Fund. In virtually every case, the shares held in the Pre-IPO Fund are subject to a 6-month post-IPO lock-up period. Thus, after 6-months have passed from a company’s IPO, the Pre-IPO Fund will distribute the shares to the members/ investors of the Pre-IPO Fund.

The information collected by MIS and due diligence performed in connection with any one investment is dependent on the facts and circumstances relating to that investment. Depending upon the nature of the investment, the information obtained and steps taken may vary.

The same limitations on information available before investing in a pre-IPO or private placement apply to monitoring such an investment after it is purchased. While MIS endeavors to subject pre-IPOs and private placements to its standard monitoring procedures, there is no guarantee that the information those procedures request will be available to MIS. As a result, MIS' ongoing due diligence and monitoring of pre-IPOs and private placements is limited to the initial due diligence steps described above. Clients should be aware that because of these limitations, there are increased risks associated with these investments which should be considered prior to investing.

### *C. Material Risks*

Investing in securities involves a significant risk of loss. MIS' investment recommendations are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account, which clients should be prepared to bear. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made. Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk and consequently, the value of the client's account may at any time be worth more or less than the amount invested. In addition, there is no assurance that any security purchased by MIS will achieve its investment objective or that any of MIS' investment strategies will be profitable. Clients should be aware of the limited due diligence conducted by MIS in certain instances (as outlined in Item 8 B, above), which could materially impact the risk associated with an investment opportunity. Past performance of investments is no guarantee of future results. For those investments sold by prospectus or private placement memorandum, clients should read the prospectus and offering documents in full.

In addition to the risks outlined in Item 8.B above, MIS is disclosing those risks and opportunities for our investment strategies and/or for particular types of securities used. The below list is not all inclusive as each mutual fund, ETF, private fund offerings and other investment products have various risks depending on the underlying securities they invest in. Therefore, it's important that clients carefully read all offering documents provided to fully understand all risks involved.

- Mutual funds offer a certain degree of investment protection, dependent upon the underlying investments and diversification among a group of securities. Underlying investments of a mutual fund (e.g. stocks, bonds or in some instances, alternative investments) will always carry the potential for substantial market and/or interest rate risk. Thus, mutual fund investors should understand that the possibility of a substantial decline in value always exists to some degree.
- Debt securities are subject to interest rate risk. In a rising interest rate environment, the value of existing debt securities will often decline. Debt securities with longer periods of time to maturity will typically be more negatively impacted by rising rates than those securities with shorter maturities.

- High yield securities are corporate debt securities rated below investment grade. While MIS does not recommend the purchase of an individual fixed income security that is deemed below investment grade, MIS does recommend mutual funds that invest in these securities. Such securities are more impacted by changes in the economic environment than by changes in interest rates. Thus, in times of declining economic activity, there exists a greater risk of default with high yield securities.
- With respect to most pre-IPOs and private placements, MIS will request, but may not receive, important information related to the issuer including, without limitation, a complete set of financial statements, information relating to management and turnover, events that could affect the operations of the issuer, and other material information. In these situations, such investments pose a greater risk. In many cases relating to pre-IPOs and private placements, such investments have limited or no revenues or cash flows. In such an instance, MIS will employ the diligence methods discussed in Item 8.B above.
- As discussed above, the covered call writing strategy is, at its core, a hedging strategy which looks to lessen the risks of equity ownership, the fact remains that it still represents the equity ownership of a company. While the call option proceeds may help to provide some downside protection, they do not prevent the possibility of a substantial decline in overall value, since if the stock price plummets the call proceeds received may only provide a small amount of cushion in offsetting a large loss of value in the stock.
- As a matter of practice, MIS does not engage in attempts to time short-term market movements.
- There are tax consequences for short-term trading wherein capital gains are taxed as ordinary income. MIS clients should be aware that most of the trading activity that occurs in the covered call writing strategy involves transactions that are treated as ordinary income for tax purposes.
- Below are some of the main risks associated with investing in options:
  - When writing covered call options to produce income for a client's account, there may be times when the underlying stock is "called" (call option contract exercised or assigned) by the investor that purchased the call option. That means the client would be required to sell the underlying security at the exercise (pre-determined) price to that investor.
  - Clients may be required to open a margin account in order to invest in options, which carries additional risks and would result in margin interest costs to the client.
  - Option positions may be adversely affected by company specific issues (the issuer of the underlying security) which may include but are not limited to bankruptcy, insolvency, failing to file with regulatory bodies, being delisted, having trading halted or suspended, corporate reorganizations, asset sales, spin offs, stock splits, mergers and acquisitions. In addition, market related actions, political issues, and

economic issues may adversely affect the option market. These factors could restrict, halt, suspend, or terminate option positions written (sold) or purchased.

- Changes in value of the option may not correlate with the underlying security, and the account could lose more than principal amount invested.
- Options involve risk and are not suitable for all clients. Therefore, a client should read the option disclosure document, “Characteristics and Risks of Standardized Options”, which can be obtained from any exchange on which options are traded, at [www.optionsclearing.com](http://www.optionsclearing.com), or by calling 1-888-OPTIONS, or by contacting your broker/custodian.
- Foreign Risk: Investments in foreign securities pose special risks, including currency fluctuation and political risks, and such investments may be more volatile than that of a U.S. only investment. The risks are generally intensified for investments in emerging markets.
- Currency Risk: Foreign investments are subject to fluctuations in the value of the dollar against the currency of the investment’s originating country. This is also referred to as exchange rate risk.
- Political and Legislative Risk: Companies face a complex set of laws and circumstances in each country in which they operate. The political and legal environment can change rapidly and without warning, with significant impact, especially for companies operating outside of the United States or those companies who conduct a substantial amount of their business outside of the United States.
- Liquidity Risk: The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Liquidity risk is typically reflected in a wide bid-ask spread or large price movements. It also is a risk associated with an investments in pre-IPOs, private placements and private funds.

Depending on the sophistication and risk tolerances of its clients, MIS recommends, as part of a client’s overall investment strategy, that a portion of such client’s assets be invested in private placements (including private funds) or other alternative investments. Such investments present special risks for MIS’s clients, including without limitation, limited liquidity, higher fees, volatile performance, heightened risk of loss, limited transparency, special tax considerations, subjective valuations and limited regulatory oversight. Therefore, private investments may not be suitable for all MIS clients and will be offered only to those qualifying clients for whom an investment therein is determined to be suitable. Generally, such investments are available for investment only to a limited number of sophisticated investors who meet the definition of “accredited investor” under Regulation D of the Securities Act of 1933, as amended (the “Securities Act”) and “qualified client” under the Investment Advisers Act of 1940. It is important that each potential qualified investor fully read each offering or private placement memorandum prior to investing.

Private funds often impose performance-based fees or incentive allocations payable to the fund manager or general partner. Such performance-based fee/incentive allocation structures may create an incentive for the managers of the private funds to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee/incentive



allocation structure. Additionally, the performance-based fee structure could also cause the portfolio managers responsible for the private funds to devote a disproportionate amount of time to the management of the private funds, and compensation may be larger than it otherwise would have been because the fee/incentive allocation will be based on account performance instead of a percentage of assets under management. Please refer to Item 6 above for additional information.

Some of the private funds that MIS invest in for clients employ alternative or riskier strategies, such as the use of leverage or hedging. Leverage is the use of debt to finance an activity. For example, leverage is used when one uses margin to buy a security. Hedging on the other hand occurs when an investment is made in order to reduce the risk of adverse price movements in a security. For example, hedging is used when one takes an offsetting position in a related security, such as an option or short sale. While leverage or hedging can operate to increase rates of return, it also increases the amount of risk inherent in an investment. They also may employ other alternative techniques which carry inherent higher degrees of risks.

MIS recommends, from time to time, investments in private funds that are considered “funds of funds” and the investments and strategies for the underlying portfolio funds may include leverage, short sales, uncovered options, futures, derivative instruments, forward and swap foreign exchange contracts, non-U.S. securities, “junk” bonds, and illiquid investments. Such funds carry high costs, substantial risks, such as the risks inherent in an investment in securities, as well as specific risks associated with each particular underlying fund’s investment strategy.

Additionally, certain private funds may be more illiquid than others, meaning that an investor’s investment may be “locked up” for a defined period of time or for the life of the private fund. The illiquidity of each private fund depends on a few factors, including but not limited to the type and liquidity of the private fund’s underlying investments. It is important for investors to read all offering documents fully before investing.

## **Item 9 - Disciplinary Information**

Registered investment advisers such as MIS must disclose all material facts about any legal or disciplinary events that would be material to a client’s or prospective client’s evaluation of MIS, its advisory business or of the integrity of its management. MIS does not have any such legal or disciplinary events and therefore has no information to disclose with respect to this item.

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

MIS has a division which operates under the dba TLR Insurance Services (“TLR”), and as such is registered as an insurance agency with the Department of Insurance (“DOI”) in the State of California. Currently, MIS does not sell any insurance products through TLR; rather, MIS is collecting trail commissions relating to its previous sale of structured settlements. In its capacity as an insurance agency, MIS is eligible to sell insurance products or services to both investment and non-investment clients. As a matter of practice, however, this is not a business that MIS and its principal is, or intends to be, actively engaged in.

MIS’ President, Anthony Reed, currently is an investor in general partner entities of limited investment partnerships (“LPs”) or limited liability companies (“LLCs”), investing in real estate and other commercial ventures. While MIS does not manage or advise these entities in any

way, MIS has in the past recommended investments in these LPs and LLCs to MIS clients, and may do so in the future. In certain instances, however, MIS charges investment management fees in connection with these LP and LLC investments. This presents a conflict of interest in that Mr. Reed receives additional remuneration when MIS clients invest in a private placement wherein Mr. Reed is a partner or member in the general partner of the venture.

Mr. Reed acts as the Managing Member and, through a family trust, is the sole owner of MIS Capital, LLC ("MIS Capital"), the General Partner of MIS Equity Strategies, L.P. (the "MIS Fund"). The activities of the MIS Fund include making investments in, among other things, IPO's, SPO's and covered call positions. The following is a discussion of the potential conflicts of interest that could arise in the course of MIS' management its client accounts and Mr. Reed's activities in connection with managing the assets of the MIS Fund:

MIS and its affiliate, MIS Capital, engage in a broad range of investment, investment advisory and other activities. These activities include, among other things, transacting in the same or similar securities on behalf of MIS clients and the MIS Fund. Such transactions may or may not be conducted through the same broker-dealer custodian and may or may not occur at the same time or in the same direction (e.g., MIS may be selling a security while MIS Capital is purchasing the position). Therefore, a conflict of interest exists in that clients of MIS and MIS Capital may be treated dissimilarly when transacting in the same security. To help mitigate this conflict, when possible and in accordance with the investment strategy, MIS and MIS Capital may purchase or sell the same securities in a block trade, and then allocate the investment opportunities among MIS clients and the other managed accounts. There may also be conflicts of interest among MIS' and MIS Capital's respective clients. Please see Section 12 for additional information about allocation.

In addition, employees of MIS may also serve as employees of MIS Capital. Resources and expenses of the two advisors are shared and divided according to use.

When suitable, MIS recommends that its clients invest in the MIS Fund. As previously mentioned, Mr. Reed serves as Managing Member of MIS Capital, the investment adviser to the MIS Fund. In addition, Mr. Reed is the sole owner of MIS Partners, LLC, the general partner of the MIS Fund. Consequently, because Mr. Reed will receive compensation through these entities, recommendations to the MIS Fund are a conflict of interest which clients should be aware of. To mitigate this conflict, such recommendations will only be made to the extent that MIS reasonably believes them to be in the best interests of the client. Importantly, MIS waives any investment management fees MIS would be entitled to receive in association with client assets invested in the MIS Fund. As part of MIS' fiduciary duty to clients, MIS will endeavor at all times to put the interests of the clients first.

Mr. Reed serves as the portfolio manager to both MIS and MIS Capital. When he is making investment decisions and allocating investment opportunities to MIS and MIS Capital, a conflict of interest exists in that there is a potential for him to achieve more remuneration if he allocated more, better performing opportunities to MIS Capital and/or MIS performance-based fee accounts than to MIS asset-based fee accounts. Mr. Reed, in his capacities as MIS' President and the Manager of the MIS Fund's general partner and investment adviser, decides which securities and investment opportunities to purchase and will allocate such investment opportunities), in his sole discretion, which often results in MIS' clients participating more, less, or not at all with respect to certain investment opportunities.. Such variances in the level of participation by and in investment decisions for MIS' clients may result in generating for MIS'

clients returns that are less than the returns generated for the investors of the other investment vehicles or accounts managed by Mr. Reed.

The demands of concurrently managing multiple investment vehicles or accounts also creates a conflict of interest with respect to the significant amount of time and resources Mr. Reed requires from time to time to manage and operate such other investment vehicles or accounts. In his capacity as President of MIS and Managing Member of MIS Capital, Mr. Reed receives compensation for his respective roles which also creates a conflict of interest, due to the fact that the obligations required by the other adviser takes time away from Mr. Reed's responsibilities to perform duties required for MIS and he may be biased to spend more time on MIS Capital due to the performance-based nature of such remuneration. To mitigate this conflict, Mr. Reed devotes as much of his time as he deems necessary or appropriate to effectively manage MIS and its various investment activities.

Please see Item 12 for important information relating to MIS's trade execution practices and related conflicts of interest.

MIS will seek to resolve all conflicts of interest in good faith and on a fair and equitable basis in conformity with and in satisfaction of its duties and internal policies and procedures.

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

### **A. Code of Ethics Summary**

MIS maintains a written Code of Ethics ("Code") in compliance with Rule 204A-1 under the Advisers Act. The Code of Ethics sets forth standards of conduct expected of MIS advisory personnel, and includes general requirements that such supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It contains written policies reasonably designed to prevent the unlawful use of material non-public information by MIS or any of its associated persons. The Code also requires that certain of MIS' personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval of private placement offerings. The Code also requires supervised persons to report any violations of the Code promptly to the MIS' Chief Compliance Officer ("CCO"). Each person subject to the Code receives a copy of the Code and any amendments to it and must acknowledge in writing their agreement to comply with its terms. Annually, each Access Person must certify that he or she complied with the Code during that year.

Clients and prospective clients will be provided a copy of the Code upon request.

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

As mentioned in Item 10 above, from time to time, MIS recommends that certain qualifying clients purchase limited partnership or LLC interests that are sponsored by MIS affiliated persons or companies. In addition, based upon a client's stated objectives, MIS has in the past recommended, and expects to in the future to recommend, the purchase or sale of securities in which MIS principals or affiliates have also invested. Such recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client.

Importantly, as part of MIS' fiduciary duty to clients, MIS and its associated persons will endeavor at all times to put the interests of the clients first and at all times are required to adhere to the MIS Code of Ethics. Please refer to Item 12 below for further information on the allocation of investments.

### *C. Personal Trading*

MIS' employees may engage in trading securities for their own accounts. MIS' Code outlines those personal trading procedures which must be followed in order to comply with Rule 204A-1 of the Advisers Act and to fulfill MIS' obligations to its clients to act in their best interest. All personal trading activities are monitored by MIS' Chief Compliance Officer. To the extent that the Chief Compliance Officer engages in personal trading, MIS has adopted policies to have another person review his personal trading activities.

MIS' Code sets forth a policy requiring MIS' employees to obtain MIS' Chief Compliance Officer's prior consent to effect any reportable securities transaction in an initial public offering or a private placement offering for their own accounts, irrespective of whether the employee is on notice that the security in question is the subject of a recommendation to a client. MIS believes that with these guidelines in place, such reportable personal securities transactions by any of its employees can be monitored or, if necessary, prohibited.

## **Item 12 - Brokerage Practices**

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

MIS recommends that clients custody their account assets at Scottrade, Inc. ("Scottrade"), which is a broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA") and a member of the Securities Investor Protection Corporation ("SIPC").

When performing investment management services, MIS will place transactions for client accounts through the client's appointed custodian since the custodian generally does not charge custodian fees so long as transactions for client accounts are executed through them as broker-dealer. However, MIS periodically evaluates the commissions charged and the service provided by broker-dealer custodians and compares those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative broker-dealer custodians. Other factors the Firm may consider when evaluating its choice of broker-dealer custodian include:

- Ability to trade mutual funds and other investments that MIS determines suitable for a client's portfolio;
- Any custodial relationship between the client and the broker-dealer;
- Quality of customer service and interaction with MIS;
- Discount transaction rates; and
- Reliability and financial stability.

The broker-dealer custodian recommended by the Firm may not provide the lowest commission rate available taking into consideration factors outlined above.

### *B. Benefits Provided by Scottrade to MIS*

MIS participates in the institutional advisor program ("Program") offered by Scottrade. In this Program, Scottrade offers to independent investment advisers, services which include custody

of clients' securities, trade execution, clearance, and settlement of transactions. MIS receives some benefits from Scottrade through its participation in the Program (see additional information in Item 14 below).

The Firm recommends Scottrade to clients for custody and brokerage services. There is no direct link between the Firm's participation in the Program and the investment advice it gives to its clients, although MIS receives economic benefits through its participation in the Program that are typically not available to Scottrade retail investors. These benefits include the following products and services (which are provided without cost): (i) access to client statements and confirmations; (ii) research related products and tools; (iii) consulting services; (iv) access to a trading desk for placing client trades; (v) access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); (vi) the ability to have advisory fees deducted directly from client accounts; (vii) access to mutual funds with no transaction fees and to certain institutional money managers; and (viii) compliance, marketing, research, technology, and practice management products or services provided to the Firm by third party vendors without cost or at a discount. Some of the products and services made available by Scottrade through the Program benefit the Firm, but may not benefit its client accounts. These products or services assist the Firm in managing and administering client accounts, including accounts not maintained at Scottrade. Other services made available by Scottrade are intended to help the Firm manage and further develop its business enterprise. The benefits received by the Firm or its personnel through participation in the Program do not depend on the amount of brokerage transactions directed to Scottrade. As part of its fiduciary duties to clients, the Firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by the Firm or its related persons in and of itself creates a potential conflict of interest and is a factor in the Firm's choice of utilizing Scottrade for custody and brokerage services. While it is not a requirement that MIS clients use Scottrade as the custodian of their assets to be managed, Scottrade is recommended by MIS to MIS clients. Below are important disclosures regarding the relationship and benefits received by both the MIS client and MIS. For further information regarding the services and benefits received by MIS under these custodian arrangements, please refer to Item 14 below.

#### Client Custody and Brokerage Costs

For MIS clients' accounts that Scottrade maintains, Scottrade is compensated by charging the client commissions or other fees on trades that it executes or that settle into the client's Scottrade account. Scottrade's commission rates applicable to MIS client accounts were negotiated, but are not subject to a commitment to maintain a certain minimum amount of clients' assets at TDA. These negotiated rates benefit MIS clients utilizing Scottrade because the overall commission rates a client pays may be lower than they would be if MIS had not negotiated the rates. In addition to commissions, Scottrade charges custodial clients a flat dollar amount as a "prime broker" or "trade away" fee for each trade that MIS has had executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's Scottrade account. These fees are in addition to the commissions or other compensation a client pays the executing broker-dealer.

#### Products and Services Available to MIS from Scottrade

Scottrade Advisor Services is a division of Scottrade's business serving independent investment advisory firms. They provide MIS and the clients custodied at Scottrade with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Scottrade retail customers. Scottrade also makes available various support

services. Some of those services help MIS manage or administer Scottrade custodied clients' accounts while others help us manage and grow our business. Scottrade's support services are generally available on an unsolicited basis and at no charge to MIS. Here is a more detailed description of Scottrade's support services:

Services that Benefit MIS Clients. Scottrade's institutional 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 Scottrade include some to which MIS might not otherwise have access or that would require a significantly higher minimum initial investment by MIS clients. Scottrade's services described in this paragraph generally benefit MIS clients that have their account assets held at Scottrade.

Services that May Not Directly Benefit MIS Clients. Scottrade also makes available to MIS other products and services that benefit the Firm but may not directly benefit MIS clients. These products and services assist MIS in managing and administering clients' accounts maintained at Scottrade. They include investment research, both Scottrade's own and that of third parties. MIS may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Scottrade. In addition to investment research, Scottrade also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitates trade execution and allocates aggregated trade orders for multiple client accounts;
- provides pricing and other market data;
- facilitate payment of MIS fees from our clients' accounts; and
- assists with back-office functions, recordkeeping and client reporting.

Services that Generally Benefit Only MIS. Scottrade also offers other services intended to help MIS manage and further develop MIS's business enterprise. These services include:

- educational conferences and events
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Scottrade may provide some of these services itself. In other cases, it will arrange for third party vendors to provide the services. Scottrade may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Scottrade may also provide us with other benefits such as occasional business entertainment of our personnel.

#### MIS's Interest in Scottrade's Services

The availability of these services from Scottrade benefits MIS because we do not have to produce or purchase them. The Firm does not have to pay for Scottrade's services so long as MIS keeps a total of at least \$10 million of client assets in accounts at Scottrade. The \$10 million minimum may give MIS an incentive to recommend that a client maintain their account with Scottrade based on the Firm's interest in receiving Scottrade's services that benefit MIS's business rather than based on a client's interest in receiving the best value in custody services

and the most favorable execution of client transactions. This is a conflict of interest. MIS believes, however, that our selection of Scottrade as a recommended custodian and broker is in the best interests of our clients. It is primarily supported by the scope, quality and price of Scottrade's services and not Scottrade's services that benefit only MIS. The Firm does not believe that maintaining at least \$10 million of those assets at Scottrade in order to avoid paying Scottrade quarterly service fees presents a material conflict of interest.

MIS is not affiliated with Scottrade. Nobody at MIS is a registered representative of Scottrade, and neither MIS nor its personnel receive any commissions or fees from recommending the services of Scottrade. In addition, a disparity in commission charges may exist between the commissions charged to other clients, or the commissions that might be charged at another broker dealer.

### *C. Best Execution*

Except as otherwise specified by a client, MIS has discretion to place buy and sell orders with or through such brokers or dealers as it deems appropriate. MIS's general policy is to place client trades with their broker custodian (e.g., Scottrade) and MIS will continue to do so as long as the Firm believes that the broker custodian is providing the best overall deal for the client and they remain competitive in relation to executions and the cost of each transaction ("best execution").

Although MIS will strive to achieve the best execution possible for client securities transactions, this does not require the Firm to solicit competitive bids and MIS does not have an obligation to seek the lowest available commission/transaction costs. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best overall qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the value of research provided, execution capability, commission/transaction rates, and responsiveness. Consistent with the foregoing, while MIS will seek competitive rates, it may not necessarily obtain the lowest possible commission/transaction rates for client transactions. MIS is not required to negotiate "execution only" commission/transaction rates, thus the client may be deemed to be paying for research and related services (i.e., "soft dollars") provided by the broker which are included in the commission rate. To ensure that broker custodians recommended by MIS are conducting overall best qualitative execution, MIS will periodically (and no less often than annually) evaluate the trading process and broker custodians utilized. MIS's evaluation will consider the full range of brokerage services offered by the broker custodians, which may include, but is not limited to price, commission/transaction costs, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

### *D. Soft Dollar Practices*

MIS may select a broker-dealer in recognition of the value of various research and/or brokerage services, beyond transaction execution, that such broker-dealer provides where, considering all relevant factors, it believes the broker-dealer can provide best execution. Selecting a broker-dealer in recognition of the provision of research and/or brokerage services other than transaction execution is known as paying for those services or products with "soft dollars." The amount of compensation paid to such broker-dealer may be higher than what another, equally capable broker-dealer might charge. The following discussion is intended to provide clients with

certain important information regarding such practices, including the potential conflicts of interest that may arise under soft dollar arrangements.

The receipt of such services may benefit MIS, because MIS does not have to produce or pay for the research or other products or services when it obtains such products and services by using client commissions. Although customary, these arrangements present potential conflicts of interest in allocating securities transactional business to broker-dealers in exchange for soft dollar benefits, including an incentive to select or recommend a broker-dealer based on MIS's interest in receiving the research or other products or services, rather than on clients' interest in receiving most favorable execution. Additionally, MIS may have an incentive to effect more transactions than might otherwise be the case in order to obtain those benefits. The extent of any such conflict depends in large part on the nature and uses of the services and products acquired with soft dollars.

Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)") recognizes the potential conflict of interest involved in this activity, but generally allows investment advisers to use client commissions to pay for certain research and brokerage products and services under certain circumstances without breaching their fiduciary duties to clients. For these purposes, "research" means services or products used to provide lawful and appropriate assistance to MIS in making investment decisions for its clients. "Brokerage" services and products are those used to effect securities transactions for MIS clients or to assist in effecting those transactions.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research and brokerage products and services which assist MIS in its investment decision-making process. MIS may cause clients to pay commissions that are higher than those that another qualified broker-dealer might charge to effect the same transaction where MIS determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received.

Research and other products and services purchased with soft dollars will generally be used to service all of MIS's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio, as permitted by Section 28(e). In other words, there may be certain client accounts that benefit from the research services, which did not make the payment of commissions to the broker-dealer providing the services.

Brokerage services obtained with soft dollars may include, for example, quotation and communication equipment and services, other order management systems that provide trading software or provide connectivity to such software, trade analysis software, on-line pricing services, communication services relating to execution, clearing and settlement and message services used to transmit orders. Research and related services furnished by brokers may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; recommendations as to specific securities; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; and discussions with research personnel, along with hardware, software, data bases and other technical and telecommunication services and equipment utilized in the investment management process. Research received by MIS under such soft dollar arrangements may include both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.



As stated above, MIS may recommend that clients establish brokerage accounts with Scottrade to maintain custody of clients' assets and to effect trades for their accounts. While there is no direct link between the investment advice given to clients and MIS's recommendation to use the custodial or brokerage services of Scottrade, certain benefits are received by MIS due to this arrangement, as outlined above and in Item 14 below.

In addition to the research and benefits received from Scottrade as discussed above and in Item 14 below, MIS receives proprietary research from certain broker-dealers that provide execution services under the Firm's Prime Brokerage arrangement. MIS does not have any third party soft dollar arrangements in place.

#### *E. Directed Brokerage*

If requested by a client and depending on the circumstances, MIS may accept written direction from a client regarding the use of a particular broker-dealer to execute some or all transactions for the client. In such a case, the client will negotiate terms and arrangements for the account with that broker-dealer, and MIS will not seek better execution services or prices and in some case, may not be able to "aggregate" client transactions for execution through Scottrade with orders for other accounts managed by MIS (as described below). Also, MIS will have limited ability to ensure the broker-dealer selected by the client will provide best possible execution. As a result, the client could pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Additionally, clients should understand that a conflict of interest exists due to the potential of MIS receiving client referrals from the directed broker. To help mitigate the conflict, MIS will only accept directed brokerage arrangements that the Firm believes would be beneficial to the client requesting the arrangement. MIS also may decline a client's request to direct brokerage if, in MIS's sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers.

#### *F. Trade Aggregation*

From time to time, MIS determines that the purchase or sale of a particular publicly traded security is appropriate for multiple client accounts. In those situations, MIS will block (aggregate) sale and purchase orders with other client accounts, including MIS employee accounts and MIS Capital, when they are trading the same security at the same time, and when MIS believes such aggregation is reasonably likely to result in an overall economic benefit to the affected accounts.

If all aggregate orders do not fill at the same price, transactions will generally be averaged as to price and allocated among participating accounts pro rata to the purchase and sale orders placed for each participating account on any given day. If a partial execution of an aggregated trade occurs and the amount of shares executed/received is less than a meaningful percentage of the total amount of shares of the trade, then MIS will allocate the shares received based on a determination made by Mr. Reed, which will take into consideration each account's cash position, investment objective, size of the order and/or liquidity of the security.

There are situations in which orders for securities may not be aggregated with other orders entered at the same time for the same security. For example, clients of MIS may direct the execution of some securities transactions through specific brokers and may negotiate the rates for such transactions, and MIS will endeavor to comply with such directions. Where a client has

directed that a specific broker be used to execute transactions, such transactions may not be aggregated with other orders entered at the same time for the same security, with the result that commission rates for such trades may differ from, or be more than, those charged on the aggregated transactions.

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

Investment opportunities and the purchases or sales of equity securities generally are allocated taking into consideration the differing objectives of, the capital made available for each investment situation by, and the differing tax status of MIS' clients. Because they may have different investment objectives, or due to other considerations, including, without limitation, the differing tax status and treatment of its clients, MIS and its affiliates may at any time and from time to time take different, and even opposite, positions with respect to particular purchases or sales of securities.

#### *G. Cross Trades*

MIS does not affect any cross securities transactions for client accounts. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Should MIS decide in the future to affect agency cross-trades in client accounts, MIS will comply with the applicable provisions of the Advisers Act and update this Brochure accordingly.

There are times when MIS will purchase the same or similar securities for the MIS Fund at the same time as it affects transactions for other MIS clients. This creates a potential conflicts of interest. To address this conflict of interest, MIS has written policies and procedures designed to mitigate such conflicts.

#### *H. Allocation of Investment Opportunities in Pre-IPOs and Private Placements*

MIS, from time to time, recommends investments in pre-IPOs and Private Placements to certain MIS clients. Generally, such investments are available only to a limited number of sophisticated investors, and in most cases such investors must meet the definitions of "accredited investor" under Regulation D of the Securities Act of 1933, as amended (the "Securities Act") or "qualified client" under the Investment Advisers Act of 1940. Additionally, both pre-IPOs and private placements are considered "limited offerings", since they only accept a limited amount of assets for investment.

When determining which clients should receive a recommendation to invest in these limited offerings, MIS considers a number of factors, including but not limited to a client's sophistication, risk tolerances and qualifications, investment objectives, and the amount of available assets in client accounts. MIS's goal is to allocate in a fair and balanced manner; however, given these differing factors, the allocation of investment opportunities in pre-IPOs and private placements to MIS clients is mainly subjective and not all qualifying clients will be provided an investment opportunity.

For those clients that do receive a recommendation to invest, it is important that you read each offering or private placement memorandum prior to investing to fully understand the risks and conflicts pertaining to these investments.

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

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

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

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

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

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

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

#### ***A. Economic Benefits Received***

As discussed more fully under Item 12, MIS receives certain “soft dollar” benefits, such as investment research, from broker-dealers utilized for trade execution. Additionally, MIS receives an economic benefit from Scottrade in the form of the support products and services Scottrade makes available to MIS and other independent investment advisors whose clients maintain their accounts at Scottrade. The availability of Scottrade’s products and services to MIS is not based on MIS giving particular investment advice, such as buying particular securities for our clients. However, the receipt of such services is deemed to be the receipt of an economic benefit by MIS, and although customary, these arrangements give rise to potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client’s interest in receiving most favorable execution. Importantly, as part of MIS’s fiduciary duty to clients, MIS will endeavor at all times to put the interests of its clients first, and recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Additionally, the conflicts

related to these services are disclosed by MIS to clients at the time of entering into an advisory agreement through the delivery of this Brochure.

Additionally, MIS generally recommends that clients use Scottrade as their custodian and broker of record. While there is no direct link between the investment advice given to clients and MIS' recommendation to use Scottrade as their custodian, certain benefits are received by MIS due to this arrangements. Scottrade makes available to MIS other products and services that benefit MIS but may not benefit its clients' accounts. Some of these other products and services assist MIS in managing and administering clients' accounts. While as a fiduciary, MIS endeavors to act in its clients' best interests, MIS' recommendation that clients maintain their assets in accounts at Scottrade may be based in part on the benefit to MIS of the availability of some of the products and services provided and not solely on the nature, cost or quality of custody and brokerage services provided by Scottrade, which may create a potential conflict of interest. Please refer to Item 12 above for further details.

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

*B. Referral Fees Paid*

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

*C. Referral Fees Received*

MIS may exercise agreements with other Registered Investment Advisors and recommend other Advisors to clients. In such instances, MIS may receive a portion of the account fee or commissions. In these instances, we will make available to the client a "Compensation Disclosure Statement" and the Form ADV for the other Advisor. The client is under no obligation to use the services of the other Advisor(s) recommended.

**Item 15 - Custody**

MIS is deemed to have custody of client funds and securities because of the fee deduction authority granted by the client in the Advisory Agreement.

MIS is also deemed to have custody of client funds because MIS has check signing authority over certain client bank accounts in connection with its provision of Concierge Services.

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

## **Item 16 - Investment Discretion**

### ***A. Discretionary Authority; Limitations***

Generally, MIS performs its advisory services on a discretionary basis, unless otherwise agreed upon at the inception of the client relationship and memorialized in the client's Advisory Agreement. In exercising its discretionary authority, MIS has the ability to determine the type and amount of securities to be transacted and whether a client's purchase or sale should be combined (aggregated) with those of other clients and traded as a "block." Such discretion is to be exercised in a manner consistent with each client's stated investment objectives, risk tolerance, and time horizon. In addition, MIS' authority to trade securities may be limited in certain circumstances by applicable legal and regulatory requirements. Clients are permitted to impose reasonable limitations on MIS' discretionary authority, including restrictions on investing in certain securities or types of securities. Despite having such authority, it is the common practice for MIS to communicate any significant recommended changes to a client portfolio prior to taking action to effect such changes. Minor changes, such as transactions entered for the purpose of rebalancing a portfolio, or the switching from one mutual fund to another within the same asset class, are generally done without first discussing such changes with the client.

Note that certain private securities transactions are done on a non-discretionary basis and, in such cases, the client will enter into a subscription or other investment agreement directly with the issuer of the private securities.

### ***B. Limited Power of Attorney***

Unless clients specifically request in writing that MIS manage all or part of their account on a non-discretionary basis, by signing MIS' Advisory Agreement, clients authorize MIS to exercise full discretionary authority with respect to all investment transactions involving the client's account. Pursuant to such agreement, MIS is designated as the client's attorney-in-fact with discretionary authority to effect investment transactions in the client's account which authorizes MIS to give instructions to third parties in furtherance of such authority.

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

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

## **Item 18 - Financial Information**

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