

## Item 1      Cover Page

Part 2A of Form ADV

Firm Brochure

Weatherstone Capital Management

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This brochure provides information about the qualifications and business practices of Weatherstone Capital Management. If you have any questions about the contents of this brochure, please contact us at Phone: (303) 452-4374 or via email at [support@weatherstonecm.com](mailto:support@weatherstonecm.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Please note that registration as an investment advisory firm does not imply a certain level of skill or training.

## Item 2      Material Changes

We have made no material changes since our last annual filing of March 2017.

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## Item 4      **Advisory Business**

### *About the Firm*

Weatherstone Capital Management is a registered investment advisory firm located in Northglenn, Colorado. Our Investment Advisory Services include investment supervisory services and financial planning services to clients. We also offer seminars and educational programs to investors. We began offering investment advice in 1991.

Michael Ball is the owner of Weatherstone Capital Management.

### *Investment Supervisory Services*

We offer investment supervision services, defined as providing continuous advice to a client or making investments for a client's individual needs. We do so through a limited power of attorney.

The assets are managed utilizing tactical and strategic asset allocation strategies. We provide these services as follows:

- 1) Through solicitors acting as independent contractors and not as employees of the applicant (whose accounts are referred to as external clients);
- 2) As a sub-advisor for various broker/dealers or registered investment advisory firms on their respective platforms; and
- 3) We also provide these services directly to a limited number of direct clients (referred to as internal clients).

We participate in wrap fee programs by providing portfolio management services. How we manage our wrap fee programs may differ from how we manage our other programs. This is due to the difference in available investment selections, transaction fees and investment restrictions. We receive a portion of the wrap fee for our services.

You are interviewed via an investment profile at the opening of the account as to your investment experience, liquidity requirements, and tolerance for risk, as well as for general financial information. The selected Investment Strategy or Strategies guided by your chosen Account Objectives then guides the placement and investments for your managed accounts.

You may instruct us to exclude certain securities on an individual basis or to impose reasonable restrictions on your accounts. You may also vote, pledge or hypothecate the securities in your account.

In order for us to provide ongoing services, you are responsible to advise Weatherstone in writing of any material changes in your financial status, modifications to your Account Objective, specific investment restrictions if applicable, special reports required if any, and material changes, such as a change of address, marital status, or any other relevant circumstance which may change how you wish your account to be managed. We cannot manage your account if you have no risk tolerance.

We manage client assets. As of December 31, 2016, our discretionary assets under management were \$446,870,783 and our non-discretionary assets under management were \$1,040,048.

### *Financial Planning Services*

We may provide financial planning services to our internal clients. This service includes reviewing current investment holdings on a periodic or one-time basis and can include a written statement of findings and investment advice.

In providing a financial plan or financial planning consultation services, we will not do a detailed analysis of a particular security. Rather our analysis will utilize such financial planning techniques as a review of the Client's financial circumstances and investment goals.

We may provide additional financial planning services to select clients. This service includes reviewing current goals, assets and investment holdings on a periodic or one-time basis and can include a written statement of findings and advice. We may also offer ongoing services, at no additional charge, to select customers who pay investment management fees totaling at least \$3,500 each year. More comprehensive services may be provided to select clients paying investment management fees totaling at least \$10,000 each year.

The recommendations provided to Clients will be valid as of the date(s) provided and will not be valid for any period beyond such date(s). It is possible that because of differing Client needs and circumstances, recommendations made to any one Client may be contrary to recommendations made to other Clients.

*Investment Seminars and Educational Programs*

We offer investment seminars and educational programs to individuals. The topics of these programs vary but include general investment information and retirement subjects.

**Item 5 Fees and Compensation**

*Fees for Investment Supervisory Services*

For our investment supervisory services, we collect an investment advisory fee (*Management Fee*) on a quarterly basis. Our fee schedule is listed below. Our fees are negotiable at our discretion.

Tactical Programs at TCA		Bond and Equity Programs at all other Custodians	
\$1,000,000 and under	1.95%	\$1,000,000 and under	2.00%
\$1,000,001 and over	Negotiable	\$1,000,001 and over	Negotiable
Strategic-Active at TCA and Tactical Foundation Programs at all custodians		Strategic-Passive Programs at TCA	
\$1,000,000 and under	1.75%	\$1,000,000 and under	1.30%
\$1,000,001 and over	Negotiable	\$1,000,001 and over	Negotiable
Custom Programs at all custodians up to 2.50%			

Management Fees are due at the beginning of each calendar quarter, in advance, based on the account valuation on the last business day of the prior calendar quarter. An account that is opened mid-quarter is charged an initial Management Fee that includes a portion of the fee that is pro-rated for the number of days that the account is open in the first quarter. In addition, an account that is terminated mid-quarter is charged a Management Fee that is calculated on a pro-rated basis for the number of days the account is open in the quarter. You may obtain a refund of pre-paid management fees by notifying us of the termination. If an account changes strategies mid-quarter and the fees for the new strategies, in aggregate are at a higher or lower fee than they were prior to the change, the adjustment to the billing will occur at the beginning of the next quarter.

*Fees for Financial Planning Services*

Financial Planning Services are offered for a fee that ranges from \$90 to \$200 per hour depending on the person providing the financial planning services.

*Fees for Investment Seminars and Educational Programs*

The fee for Investment Seminars and Educational Programs ranges up to \$150. The fee is payable in advance and is not refundable unless cancelled before starting the course.

### *Other Information about Advisory Fees*

The fees charged may be higher or lower than fees charged in the industry for like services. Tactical investment strategies will typically be more expensive than strategic strategies due to the amount of time and infrastructure needed to frequently review and analyze investments, market conditions, and other risk factors, and then to update and trade investment portfolios as needed. Most of the Weatherstone strategies are evaluated weekly as well as at the beginning of each month. Changes are made as needed.

Exceptions or any other modifications to the fee schedule or minimum account sizes require our approval. In some instances, the primary custodian receives 12B-1 fees from investment companies. These fees offset client custodial fees and administrative costs. The client assets will be subject to additional fees and expenses as set forth in the prospectuses of those funds and variable annuities. The custodian of the assets may also charge fees for custodial services or trading charges. These fees and expenses are ultimately born by the client.

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

In limited circumstances we accept performance-based fees, and the same people who manage the performance-based fee accounts also offer services for a fixed fee or an asset-based fee. Those associated people may have an incentive to favor accounts that receive a performance-based fee. To mitigate that risk, we monitor the trading activity in performance-based accounts and strive to treat clients equitably.

## **Item 7 Types of Clients**

We provide investment advice to Individuals, Trusts, Estates, Corporations and other business entities. We have a minimum account value of \$25,000 and a program minimum of \$12,500. At our discretion, we may accept smaller accounts and programs. Note, if your account is of a smaller size and the program you have selected invests in stocks, we may have to substitute other investments, such as mutual funds with similar objectives, due to the limitations of purchasing stocks with small dollar amounts.

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

Investing involves risk that you should be prepared to bear.

We offer the Investment Programs listed below. Each investment strategy has different objectives and ways of adjusting to changing investment climates. Most programs seek to manage risk based upon various measures that have been useful historically. While we expect that they will be useful in the future, market dynamics can and do change, and as a result it is not unusual to see the methods of risk measurement and analysis change over time as well. While risk management strategies can be quite effective when market changes are due to the impact of factors such as rising interest rates or economic cycles, they have little ability to protect against unexpected events such as terrorist attacks, major earthquakes, etc. which are unpredictable. If we experience one of these types of situations, our goal is to determine if the financial markets have overreacted to the intermediate and long-term impact of the event and adjust the asset allocations accordingly.

Each investment strategy is best suited for investors who can hold the portfolio over a full market cycle of both a bull and bear market, because there are some market environments where programs may excel in comparison to their benchmarks, and others where they will lag behind. A full market cycle will typically give you some of each. You should

review each program description to ensure that you are comfortable with the style of management and types of investments used by each program that you select under your investment advisory agreement. Please consult your financial advisor for a current listing of custodians on which the investment management programs are made available. The programs will often have different holdings and may trade differently from one custodian to another based upon factors such as investment options available and transaction fees, and trading cutoff times. Each program listed below has corresponding risks associated with the investment. The numbers following the description list the investment risks associated with each program and are explained in detail in the "Program Risks" section. Our program sheets also show performance for the programs. This data is given for performance at the primary custodian. We do not provide program sheets by individual custodians.

**MANAGED BOND** - The Managed Bond strategy is designed to generate income and growth through a portfolio primarily composed of non-investment grade corporate bond exchange traded and traditional mutual funds. This program is designed to hold corporate bond mutual funds when various risk measurement models show that the funds have the potential to produce a higher return than a money market fund over an intermediate-term time frame. Exchange traded and traditional mutual funds are used to provide greater diversification and liquidity than in a portfolio of individual bonds. During periods that show above average risk, the money is typically moved into a money market fund, inverse bond fund or floating rate bond fund. (2,3,5)

**ASSET ENHANCEMENT** - The goal of the program is to provide clients with the ability and opportunity to participate in various financial markets and to provide that participation with a reduced level of risk. The program is based on a foundation of dynamic asset allocation/modeling. The primary trading model is trend following in nature and based on technical indicators. Short-term, intermediate, and long-term trends are taken into consideration. A series of secondary models may be used when the primary model is less than 100% invested or in a defensive mode. The secondary models are designed to invest in bonds and equity income asset classes, as well as market index funds. The primary model is 90% mechanical and allows for some manager discretion. This component allows for flexibility during unusual events. The secondary models are driven by a variety of factors, as well as by manager discretion. Equity, bond, domestic and international funds are all options to be used within this program. Position size will vary accordingly, with money market positions taken as a defensive stance. The two main goals of the program are capital preservation and consistent returns over time. (1-8)

**CONSERVATIVE GROWTH** - The Conservative Growth strategy is designed for investors who want growth and income from a portfolio composed primarily from bonds. The bond portion of the portfolio typically follows the Income Plus strategy (see description for further information). The goal of the investment strategy is to provide steady growth from the bond portion of the portfolio while enhancing returns from the equity portion of the portfolio. The equity portion of the portfolio is typically comprised of broad based index funds, style specific funds, and sector specific funds. Some of the investments purchased in the equity portion of the portfolio may not typically be considered "conservative" by themselves, but the small weighting to such positions inside the portfolio in conjunction with risk management on the portfolio qualifies these investments to be held in a strategy designed for conservative investors. (1-8)

**INCOME PLUS** - The Income Plus program is designed for income-oriented and conservative investors who wish to grow their assets through bonds and other equity income type investments. The portfolio will primarily concentrate its assets in the high yield corporate bond asset class when that sector is favorable, and will also use other bond asset classes and other income oriented asset classes if the manager determines that they could have a favorable impact on the portfolio.

During time period when market conditions are determined to be generally unfavorable to bonds then money market funds and inverse rising rate bond funds, and other defensive mutual funds designed to preserve purchasing power may be used. (2-8)

**MANAGED INCOME** – This program is designed for investors where income and preservation of principal are the primary investment goals. This portfolio is a “tactically” managed bond portfolio which invests 100% in bond exchange traded and traditional mutual funds, primarily using high yield corporate bonds with the ability to use other bond categories such as U.S. Government bonds, investment grade corporate bonds, and international bond funds. Money market funds may also be utilized during defensive periods. (2-8)

**TACTICAL YIELD** – The Tactical Yield program is designed with the primary objective of capital preservation, with a secondary objective of providing an attractive yield and competitive total return while experiencing lower volatility than equity investments. The Tactical Yield investment committee seeks to achieve these goals primarily by tactically moving between high yield corporate bonds and money market funds. During periods when high yield bonds are considered to have below-average return potential, other types of bond funds can become the primary bond asset classes used. Some of the factors considered when deciding to trade include prevailing market conditions and the predicted economic environment, input from bond fund managers and technical indicator signals. The portfolio also has the ability to hedge certain components using market timing to exchange between derivative-based “long” and “short” or “inverse” bond funds. (2-8)

**BALANCED GROWTH** - The goal of the Balanced Growth program is to provide long-term growth of capital from a portfolio of stocks and bond exchange traded and traditional mutual funds that is diversified across several different tactical investment strategies where each directs a portion of the investment allocation and determines the allocation between stocks, bonds and cash. The program is typically weighted 70% equities and 30% bonds. During periods when the various investment models indicate that there is little or no potential for gain over the intermediate-term in their respective categories, the asset allocation for that model will typically be moved to money markets or inverse positions to hedge long positions, or allocated to another model. (1-8)

**DIVERSIFIED GROWTH** - The Diversified Growth program is designed for investors seeking long-term growth of their capital over time. The program will typically be invested in stock exchange traded and traditional mutual funds when conditions for a rising stock market exist. The program uses many of the same investment models as the Focused Growth Program, and adds additional diversification by including tactical mutual funds, which typically provide additional managers who have the ability to utilize innovative strategies that can adapt to changing market environments. During periods when the various investment models indicate that there is little or no potential for gain over the intermediate-term in their respective categories, the asset allocation for that model will typically be moved to money markets or inverse positions to hedge long positions, or allocated to another model. (1-8)

**SECTOR ROTATION** - The objective of the Sector Rotation Program is to tactically alter equity exposure across 10 industry sectors, based upon quantitative models. The primary quantitative econometric model evaluates factors such as the overall economy, fundamental variables that measure relative value of various equity markets versus bonds, risk metrics which are designed to capture the level of uncertainty in the markets, and technical factors such as momentum and market conviction metrics which are used to quantify the strength of market movements.

When a sector model is on a “buy” 10% of the portfolio will be allocated to that sector. On a “sell” there is a 0% weighting to the sector and the money is allocated either to a money market fund or one of six bond asset classes. (2, 5, 8)

#### Socially Responsible Tactical Market Index

This strategy is identical to Tactical Market Index – Moderate program which is listed above, but this program uses a socially responsible exchange traded mutual fund when money is invested in the equity markets. (2, 5, 8)

**FOCUSED GROWTH** - The Focused Growth Program is an investment strategy that typically invests in exchange traded and traditional mutual funds that focus on specific investment sectors, styles, or international regions and countries. Selected funds for the asset allocation are chosen for their potential to outperform their long-term average rate of return over a short to intermediate-term time frame. Investments are chosen through a screening process that evaluates the general background environment for the financial markets, as well as through additional screening which looks at which areas of the market are most likely to perform well based upon historical profiles, cash flows, relative strength and a variety of other indicators. Additional screening may be done using various technical filters, as well as the judgment of the portfolio manager. The program will typically be fully invested in equities when market environments are deemed positive; however, during periods when the market environment is evaluated as being unfavorable, up to 100% of the portfolio may be allocated to money market funds or bond funds. The portfolio also has the ability to utilize “bear” funds that may rise in value during a market decline. (1-8)

**COUNTRY ROTATION** - The objective of the Country Rotation Program is to maximize opportunity with defined risk controls by trying to consistently invest in those countries around the world that have strong-risk-adjusted performance potential. The strategy assesses market conditions across 20 countries, including several emerging markets. It uses an econometric multifactor model based on economic, fundamental, risk and technical analysis that evaluates the risk-adjusted potential of investing in a country’s equity market versus fixed income. If the expected return per unit of risk for the country is less favorable than that of a fixed income alternative, the potential 5% allocation for each country is deployed to the actively managed fixed income portion of the portfolio. (2, 5, 6, 7, 8)

**STRATEGIC DIVIDEND** - The Dividend Portfolio is an actively-managed strategic portfolio that seeks to achieve a balance between attractive absolute dividend yield and strong dividend growth rates supported by quality company fundamentals. Their goal is to produce an attractive and rising current income stream and favorable risk-adjusted investment performance. The portfolio seeks to achieve these results by maintaining holdings in a concentrated holding of 25-40 companies with strong financial condition, strong relative earnings power, astute management, and a company culture of returning earnings to shareholders through dividends. (1, 5, 6, 7, 9)

**HIGH QUALITY GROWTH** - The High Quality Growth program is an actively-managed strategic portfolio with a disciplined approach to investing in a concentrated portfolio of 20 to 30 mid to large capitalization stocks and international ADRs that are growing at above average rates and generate positive cash flow. The managers use a proprietary screening of company fundamentals for the equity decision process, and target stocks that they view as high quality that can be purchased at favorable price/earnings ratios based on fundamental valuation methods. They believe that holding a focused portfolio of quality stocks over a long-term horizon and not striving to match the sector weightings of a market index improves the probability of outperforming the market over time. (1, 5, 6, 7, 9)



**INDEXED EQUITY** – The objective of this program is to provide a broadly diversified allocation across the global equity markets. The majority of the allocation will be to domestic equity markets with a primary focus on large cap securities, with smaller weightings to mid-cap and small-cap securities. Within the international allocation, the majority of the allocation will be to developed markets, with a smaller weighting to emerging markets. Positions are established using exchange traded mutual funds (ETFs) that are designed to track various equity benchmarks. The portfolio is strategic in nature and will be rebalanced annually. (1, 5, 6, 7)

**GLOBAL OPPORTUNITIES** - This strategy invests in country and region specific exchange-traded mutual funds, open-end mutual funds and closed-end mutual funds. The goal of the program is long-term capital growth that segments the world through developed markets, emerging markets, regions (Europe, Asia, and Latin America) individual countries, etc. When conditions are positive based upon the various investment models and the managers evaluation up to 100% of the portfolio can be invested in equities, the program has the ability to move 100% of its assets in money market funds, or may utilize inverse funds in situations where the portfolio manager finds risk/return levels advantageous. Primary screening methods include various mechanical models, relative momentum and the strength of trends across regions and countries. Manager discretion and various technical filters may be used. Due to the more volatile nature of the international equity and currency markets, it is expected that this strategy will experience greater levels of volatility when compared to our other equity-based, tactical programs. (1-7)

**US TACTICAL CORE** - The U.S. Tactical Core program is a long only strategy seeking to outperform the S&P 500 index over a full market cycle by aligning capital with the U.S. equity market during sustained rallies and positioning defensively in weak equity market conditions. The strategy is not restricted to a minimum percentage in stocks or bonds, and may at times be fully invested in either asset class. This strategy is the culmination of a decade of research covering over 100 years of market data. The underlying premise of the strategy is that equity prices are driven by investor risk premiums and that these premiums vary with the business cycle. By combining momentum measures, economic data and yield curve dynamics, the model seeks to assess these risk premiums in order to participate in equities during sustained rallies and move defensively into Government bond funds when weaker market conditions are experienced. The U.S. Tactical Core strategy typically re-balances monthly. Portfolios in this strategy have increased market exposure through the use of leveraged index products. (1-5)

**TACTICAL MARKET INDEX-GROWTH** - Tactical Market Index – Growth is a tactically managed investment strategy designed to be fully invested in a mutual fund or exchange traded mutual fund that tracks large capitalization stocks such as the S&P 500 when the various investment models it uses are positive, and can move into cash or bonds when the investment models indicate that the market environment for stocks has moved into an environment of above-average risk. The risk measurement models used for this strategy focus primarily on measures of market action such as market participation across sectors and industry groups, market participation across countries, and the performance of stocks in relation to competing asset classes such as bonds, commodities and cash. The investment models are primarily mechanical, but manager discretion is allowed to make adjustments for unusual market conditions. (2, 5)

**TACTICAL MARKET INDEX MODERATE** - Tactical Market Index Moderate uses the same investment models as those used in Tactical Market Index – Growth, but it also incorporates an additional stop-loss model that is designed to reduce the

potential drawdown that may be experienced in the model and make it more conservative than Tactical Market Overlay – Growth over a full market cycle. The addition of the stop loss model is likely to cause the expected returns for the Moderate version of the model to be lower than the Growth version of the model over a full market cycle. (2, 5)

**ALL ASSET GROWTH** - All Asset Growth is designed for investors who are comfortable allocating investments across a large pool of potential asset classes from across the globe, and which can allow them to participate in changing global investment trends. The program that can allocate assets across traditional and exchange traded mutual funds. The 16 asset classes are; cash, gold, S&P 500, commodities, Japanese stocks, international stocks, U.S. corporate and gov't agency bonds, emerging market stocks, REITs, small cap U.S. stocks, intermediate-term government bonds, high yield corporate bonds, utility stocks, consumer staples stocks, natural resource stocks, and infrastructure stocks. The program will typically hold between 4-8 positions based upon measures of short-term and long-term momentum among asset classes, and are updated monthly. There may be times when both measures of momentum will point to the same asset class and this may result in a high concentration of assets in a single asset class. The model is updated monthly, and will typically use exchange traded mutual funds as the investment vehicle. Certain investments may be included or excluded from the investment mix based upon valuation or inflation thresholds. (1, 2, 5-8)

#### International Tactical Growth - Unhedged

The International Tactical Growth - Unhedged program is a tactically managed investment strategy that offers broad-based equity exposure to developed foreign markets through the use of exchange traded and traditional mutual funds as the primary investment vehicle. The program can move from being fully invested in equities to being defensively positioned in U.S. Government bonds during periods identified as having above-average risk. The risk measurement models utilized in this strategy primarily evaluate factors such as the number of developed international stock markets moving higher or lower, the performance of the stocks markets in the three primary regions of the world, Asia, Europe and the Americas, relative to each other and to cash. Among other factors evaluated is the relative strength of developed vs. emerging markets relative to cash and bonds, and other factors. (2, 5-7)

#### International Tactical Growth – Hedged

The International Tactical Growth – Hedged program is identical to the International Tactical Growth – Unhedged strategy, but uses a currency hedged exchange traded or traditional mutual fund when making equity investments. (2, 5-7)

**CUSTOM PROGRAMS** - Custom programs have the ability to utilize customized strategies and investment options that will not normally be used in a standard portfolio. In addition custom portfolios may also be used on platforms not typically utilized because of their difficulty in managing larger number of accounts at a particular custodian. These accounts may trade in a delayed status (Tier II) compared to the regular strategies; generally a one-day delay if operationally necessary. The ability to utilize a custom strategy requires the prior approval of applicant.

## PROGRAM RISKS

The investment programs listed above may not be appropriate for all investors. There is no assurance that the Program's separate objectives will be achieved. Because most investment positions will be held less than one year, our investment strategies are best suited for tax deferred accounts. The items listed below are additional risks associated with our programs. We have numbered them and listed the numbers associated with each risk for the particular program after the program descriptions on the previous pages.

**Investment returns and the value of your investment will fluctuate and may lose money. Investing involves risk that you should be prepared to bear.**

- (1) Some of our Programs can invest in small/mid-cap and micro-cap stocks. The risks associated with investments in smaller companies include less experienced management, limited product lines and financial resources, shorter operating histories, less publicly available information, which may have more limited marketability and may be subject to more abrupt or erratic market movements than large-cap stocks. This may result in greater share price volatility.
- (2) Some of our Programs can invest in fixed income securities. Fixed income securities are subject to credit risk, interest rate risk and liquidity risk. Generally the value of fixed-income securities rises when prevailing interest rates fall and falls when interest rates rise. High-yield bonds, also known as "junk" bonds are subject to greater credit risks and market risks, and are subject to adverse changes in general market conditions and in the industries in which the issuers are engaged, and to changes in the financial conditions of the issuers.
- (3) Some Programs may also invest in "short" or "inverse" mutual funds which are designed to profit from declining securities prices, which involve certain risks that may include increased volatility due to the funds possible use of short sales of securities and derivatives such as options and futures. Short funds are typically used to offset the risk of "long" positions that may continue to be held in the portfolio.
- (4) Some strategies will invest in leveraged exchange traded and traditional mutual funds. The more a fund invests in leveraged instruments, the more the leverage will magnify any gains or losses on those investments. Leveraged exchange traded and traditional mutual funds are typically used for short or intermediate-term trades and enable us to achieve market exposure without selling positions such as bonds or holdings that may move from being taxed as short-term capital gains to being taxed as long-term capital gains. With the exception of the US Tactical Core program, we do not typically use leveraged funds in order to increase the stock market exposure to more than 100% invested. As an example, a 50% allocation in an index fund that is leveraged 2-1 would be expected to provide 100% of the return of an index. The impact of compounding often makes it difficult to achieve a perfect correlation with an index.
- (5) Money market funds are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.
- (6) International funds that invest in the securities of foreign companies involve considerations and potential risks not typically associated with investment in domestic corporations. Funds allocated in an international/global/emerging markets investment could be subject to risks associated with changes in currency values, economic, political, social conditions and local regulatory environments.
- (7) The securities markets of many of the emerging markets in which the strategies may invest are substantially smaller, less developed, less liquid and more volatile than the securities markets of the United States.
- (8) Sector specific funds invest in a single sector mutual fund which involves greater risk and potential reward than investing in a more diversified mutual fund. Additional information regarding the risks associated with the investments that may be owned are more fully explained in the prospectus provided by the investment companies. Please read the prospectus for more information.

- (9) Concentrated portfolios. The program will invest its assets in less than 50 positions, this will expose the portfolio to greater volatility and risk from company specific events than a broadly diversified portfolio would. Concentrated holdings may offer the potential for higher gain, but also offer the potential for higher loss.

#### *Possible Conflict of Interest:*

Weatherstone Capital Management manages some of the tactical programs with in-house staff while other programs are managed by sub-advisors who provide us with trading instructions. In the event that we use sub-advisors, they are paid for their services. We receive more income for programs managed in-house and it may be considered a conflict of interest to recommend our own investment programs over those of a sub-advisor.

### **Item 9      Disciplinary Information**

Neither the Firm nor any of our management persons have been involved in any event that are material to a client's or prospective client's evaluation of the Firm or the integrity of its management.

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

We have no other financial industry activities or affiliations.

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

Associated persons may buy or sell for their own accounts the same securities recommended to you. Associated persons seek to ensure that they do not personally benefit from the short-term market effects of their recommendations to you and we monitor their personal trading.

Associated persons are aware of the rules regarding material non-public information and insider trading. Associated persons may also buy or sell a specific security for their own account based on personal investment considerations, which the Advisor does not deem appropriate to buy or sell for clients.

Very rarely, we may enter into a principal transaction, in which we or our associated person buy or sell a security directly to or from a client.

We have adopted a Code of Ethics to instruct our personnel in their ethical obligations and to provide rules for their personal securities transactions. The Firm and our personnel owe a duty of loyalty, fairness and good faith to our clients, and the obligation to adhere not only to the specific provisions of the code but also to the general principles that guide the Code. The Code covers a range of topics including general ethical principles, reporting personal securities trading, exceptions to reporting securities trading, reportable securities, initial public offerings and private placements, reporting ethical violations, distribution of the Code, review and enforcement processes, amendments to Form ADV and supervisory procedures. We will provide a copy of the Code to any client or prospective Client upon request.

### **Item 12      Brokerage Practices**

When recommending custodians to our clients, we consider the availability of investment products, the cost to clients for custodial and trading services, and the ease of doing business.

We typically recommend Trust Company of America, a trust company, for our client's custodial needs when they wish to use multiple strategies in a single account. They have no minimum commission or trading fee and can trade in fractional shares. They use up to 25 basis points of the shareholder servicing fees they receive from the mutual funds we use in accounts to offset the costs that would be levied on your accounts held with them. This offset is only available to customers at Trust Company of America, and not to our clients with other custodians.

We also recommend TD AMERITRADE Institutional, a division of TD AMERITRADE, Inc. Member FINRA/SIPC/NFA as a custodian. We typically recommend TD Ameritrade as custodian a for smaller accounts, and for accounts that do not mind having a separate account for each investment strategy and because of their customer service, technology, trade execution, and low expenses to clients. They have relatively low transaction fees, low custodial fees, provide many client services free of charge, and provide and document data on best execution for our review and monitoring. The pricing and execution that a client will receive will vary between TD Ameritrade and Trust Company of America. There is no guarantee that one will offer better execution than the other will. Choosing one over the other could cost you more money or could result in less favorable execution.

At Trust Company of America, we may opt to use liquidity providers, who assist us in achieving better execution for trades than what we believe we could have executed them for on our own. Those liquidity providers are compensated for their assistance. We opt to use their services only when it seems reasonable that the overall execution quality will benefit.

We receive referrals from representatives associated with broker-dealers. Those broker-dealers may place limitations on the custodial platforms they permit, and may have an incentive to recommend a particular custodian because of additional compensation or reduced clearing fees they may pay for other services.

We may also receive marketing money from product sponsors we recommend. Any compensation we receive from product sponsors is not tied to a particular amount of assets invested in their mutual funds but it may create a conflict of interest as we have an implied incentive to invest in their products.

Not all Advisers recommend a custodian. There is no certainty that Trust Company of America or TD Ameritrade Institutional will provide the most favorable execution. Using a custodian we recommend could cost you more money.

We permit clients to direct brokerage. If you do so, we may be unable to achieve the most favorable execution of your transactions. For example, you may pay higher brokerage commissions and you may receive less favorable prices.

### ***Aggregated Trading***

We engage in aggregated/blocked trading so as to avoid the time and expense of simultaneously entering similar orders for many individual client accounts that are managed similarly and to ensure that accounts managed in a similar style at a particular custodian receive the same execution to minimize the difference in performance.

Weatherstone has established procedures to comply with its obligations associated with bunched/aggregated orders. More information about these procedures is available upon request.

### ***Other Information about Trading***

We place trades using your selected custodian, and in some cases we send our trade instructions to platform sponsors, who in turn execute the trades. Because of the multiple platforms through which we are directing trades, not all trades will be done at the same time. We anticipate that they will generally be done within one business day of each other, but cannot guarantee that result. This means that you may receive better or worse pricing than other individuals in the same program.

## **Item 13      Review of Accounts**

Accounts are under the supervision of the director of operations. The director of operations may delegate account and model review to a team of staff members, but is responsible for verifying that each strategy has been reviewed after rebalances or model trades. Model review is to consist of an audit of sample of client accounts or models after adjustments are made to asset allocations for the purpose of determining if transactions were processed properly. Because of the nature of the managed account strategies, all accounts in those strategies are under regular review. Accounts in custom programs are reviewed at least semi-annually.

We provide optional quarterly performance statements to some clients. Currently a third party verifies transactions and accuracy for reporting. Additionally, the director of operations or a designated staff member reviews statements for a sample of client accounts each quarter to check for reporting accuracy through our primary custodian. Clients with these types of accounts may view their account information and run reports by going to the client section of our website at [www.weatherstonecm.com](http://www.weatherstonecm.com)

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

We may compensate firms or people who refer us clients. We call these firms or people, Referral Advisors. Through these arrangements, we pay a referral fee to the Solicitor based on a percentage of our advisory fee. This fee is paid based on a written agreement to properly licensed Solicitors. The specific information about the referral is disclosed to prior to or at the time you enter into an investment advisory agreement. We will pay some Solicitors and/or Referral Advisors marketing reimbursements. Some Referral Advisors are broker-dealer firms, to which we may have revenue sharing agreements.

Certain product sponsors may assist us in our marketing efforts. These sponsors may provide us with marketing assistance. This relationship is not based upon the specific advice we give to you and does not relate to any achieved level of client investment in the products managed by the product sponsors.

## **Item 15      Custody**

We have custody of client assets only due to our ability to withdraw fees from customer accounts. The qualified custodian of client assets sends account statements directly to Clients. You will receive account statements from the broker-dealer or other qualified custodian. You should carefully review those statements because they are the independent custodian who holds your investments. An independent custodian is an important safeguard to protect your account.

We provide some of our clients with portfolio reports. If you receive these types of reports, we urge you to compare their contents with the statements you receive from your custodian.

## **Item 16      Investment Discretion**

We ask you to provide us with investment discretion with respect to securities to be bought and sold and amount of securities to be bought and sold. You will grant us this authority by signing a discretionary asset management agreement.

We use this investment discretion to be able to rapidly adjust our asset allocation across our investment models as market conditions and investment opportunities change. This allows us to make the adjustment for individual client

accounts quickly, and as a group with others invested in the same strategy. We may also use this discretion to select different sub-advisers to use to help us manage our programs.

## **Item 17    Voting Client Securities**

We do not vote proxies. You retain that right unless otherwise agreed upon by you and your custodian.

## **Item 18    Financial Information**

We have no financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

## Brochure Supplement

Part 2B of Form ADV

Michael Ball

Linda Penfold

Daniel Graff

Weatherstone Capital Management

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Northglenn, CO 80234

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Phone: (303) 452-4374

Date: March 10, 2017

### Item 1 Cover Page

This brochure supplement provides information about Michael Ball, Linda Penfold, and Daniel Graff that supplements our Firm Brochure. Please contact our sales team at (303) 452-4374 if you did not receive Weatherstone Capital Management's brochure or if you have any questions about the contents of this supplement.

### Item 2 Educational Background and Business Experience

#### Education and Business Background

Name: Michael Ball

Born: 1967

Education: Brigham Young University - Idaho: Associates degree in Arts & Sciences (1989)

Utah State University: B.S. Corporate Finance, Minor in Accounting (1992)

College for Financial Planning: CFP Professional Education Program (2000)

Experience: 12/90 to Present: Weatherstone Capital Mgmt.(including preceding firms)/Portfolio Manager

11/01 to 08/09: Centaurus Financial, Inc. Financial Advisor

07/96 to 11/01: United Pacific Securities/Sentra Securities, Financial Advisor

04/92 to 07/96: Investment Centers of America, Financial Advisor

Name: Linda K Penfold

Born: 1957

Education: Western State College, Gunnison, Colorado: B.A. Business Administration and B.S. History, 1980

College for Financial Planning: Chartered Retirement Planning Counselor (2013)



Experience: 2000 – Present: Weatherstone Capital Management, Director Client Services

1997 – 2000: Consultant, independent product development for financial applications for MarketGuide, Inve\$tware, WorldVest and National Association of Investors

1980 – 1996: Director, Data and Custom Investment Products, Standard & Poor's Compustat

Name: Daniel J. Graff

Born: 1985

Education: Clemson University Calhoun Honors College, 2007

College for Financial Planning CFP Education Program, 2012

Experience: 2014 – Present: Weatherstone Capital Management, Director of Financial Planning

2013 – 2014: Ronald Blue & Company, Sr. Financial Planner

2012 – 2013: Ronald Blue & Company, Financial Planner

2009 – 2012: Ronald Blue & Company, Financial Planning Associate

2003 – 2009: Foundation & CityGate Mortgage Companies, Mortgage Consultant

### **Item 3      Disciplinary Information**

Neither our investment committee members nor our investment adviser representatives have any material disciplinary issue to disclose.

### **Item 4      Other Business Activities**

Our Advisory Representatives do not have any other outside business activities that conflict with their duties to you.

### **Item 5      Additional Compensation**

There are no such issues to be disclosed.

### **Item 6      Supervision**

Ann Zemann, Chief Compliance Officer, supervises our representatives. She does so through regular meetings, reviewing emails and personal trades, and by enforcing our written supervisory procedures. You may contact her at (402) 502-2881 with any concerns or questions.