

Firm Brochure

(Part 2A of Form ADV)

PINNACLE WEALTH MANAGEMENT, LLC

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This brochure provides information about the qualifications and business practices of PINNACLE WEALTH MANAGEMENT, LLC. If you have any questions about the contents of this brochure, please contact us at: 206-715-7611, or by email at: Pinnacle4963@Comcast.net. 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 PINNACLE WEALTH MANAGEMENT, LLC is available on the SEC's website at www.adviserinfo.sec.gov

March 24, 2017

Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

Material Changes since the Last Update

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 206-715-7611 or by email at: Pinnacle4963@Comcast.net.

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Advisory Business

Firm Description

PINNACLE WEALTH MANAGEMENT, LLC, ("FIRM NAME") was founded in YEAR 1998.

PINNACLE WEALTH MANAGEMENT, LLC provides personalized confidential financial planning and investment management to primarily family members. Advice is provided through consultation with the family (client) and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

PINNACLE WEALTH MANAGEMENT, LLC is strictly a fee-only financial planning and investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

Investment advice is an integral part of financial planning. In addition, PINNACLE WEALTH MANAGEMENT, LLC advises clients regarding cash flow, college planning, retirement planning, tax planning and estate planning.

Investment advice is provided, with the client making the final decision on investment selection. PINNACLE WEALTH MANAGEMENT, LLC does not act as a custodian of client assets. The client always maintains asset control. PINNACLE WEALTH MANAGEMENT, LLC places trades for clients under a limited power of attorney.

A written evaluation of each client's initial situation is provided to the client, often in the form of a net worth statement and a investment policy statement. Annual reviews are also communicated to provide reminders of the specific courses of action that need to be taken. More frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

Principal Owners

The principal owner of PINNACLE WEALTH MANAGEMENT, LLC is Kevin L. Smith

Types of Advisory Services

PINNACLE WEALTH MANAGEMENT, LLC provides investment supervisory services, also known as asset management services. On more than an occasional basis, PINNACLE WEALTH MANAGEMENT, LLC furnishes advice to clients on matters not involving securities, such as financial planning matters, and trust services that often include estate planning.

As of December 31, 2016, PINNACLE WEALTH MANAGEMENT, LLC manages approximately \$ 163,451,455 in assets for approximately 8 paying clients and 9 Family Clients. Approximately \$ 101,842,980 is managed on a discretionary basis, and \$ 61,608,475 is managed on a non-discretionary basis.

PINNACLE WEALTH MANAGEMENT, LLC does not participate in wrap fee programs.

Tailored Relationships

The goals and objectives for each client are documented. Investment policy statements are created that reflect the stated goals and objectives. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

Types of Agreements

The following agreements define the typical client relationships.

Financial Planning Agreement

A financial plan is designed to help the client with all aspects of financial planning without ongoing investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations are provided as part of a financial plan. Implementation of the recommendations is at the discretion of the client.

The fee for a financial plan is predicated upon the facts known at the start of the engagement. The minimum fee is \$ 2,000 and is *Negotiable*. Since

financial planning is a discovery process, situations occur wherein the client is unaware of certain financial exposures or predicaments.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

After delivery of a financial plan, future face-to-face meetings may be scheduled as necessary for up to one month. Follow-on implementation work is billed separately at the rate of \$ 200 per hour.

Advisory Service Agreement

Most clients choose to have PINNACLE WEALTH MANAGEMENT, LLC manage their assets in order to obtain ongoing in-depth advice and life planning. All aspects of the client's financial affairs are reviewed, including those of their children. Realistic and measurable goals are set and objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for an Advisory Service Agreement is provided to the client in writing prior to the start of the relationship. An Advisory Service Agreement includes: cash flow management; investment management (including performance reporting); education planning; retirement planning; and estate planning as well as the implementation of recommendations within each area.

The annual Advisory Service Agreement fee is based on a percentage of the investable assets according to the following schedule:

1.00% on the first \$1,000,000

0.50% on assets above \$1,000,000

Current client relationships may exist where the fees are higher or lower than the fee schedule above.

Although the Advisory Service Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the month completed. The portfolio value at the completion of the prior full billing month is used as the basis for the fee computation, adjusted for the number of days during the billing month prior to termination.

Hourly Planning Engagements

PINNACLE WEALTH MANAGEMENT, LLC provides hourly planning services for clients who need advice on a limited scope of work. The hourly rate for limited scope engagements is \$ 200.

Asset Management

Assets are invested primarily in no-load or low-load mutual funds and exchange-traded funds, usually through discount brokers or fund companies. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. PINNACLE WEALTH MANAGEMENT, LLC does not receive any compensation, in any form, from fund companies.

Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not available through PINNACLE WEALTH MANAGEMENT, LLC.

Termination of Agreement

A Client may terminate any of the aforementioned agreements at any time by notifying PINNACLE WEALTH MANAGEMENT, LLC in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination

PINNACLE WEALTH MANAGEMENT, LLC may terminate any of the aforementioned agreements at any time by notifying the client in writing.

Fees and Compensation

Description

PINNACLE WEALTH MANAGEMENT, LLC bases its fees on a percentage of assets under management, and hourly charges.

Financial plans are priced according to the degree of complexity associated with the client's situation.

Fees are *Negotiable*

Fee Billing

Investment management fees are billed monthly, in arrears, meaning that we invoice you *after* the billing period has *ended*. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

Fees for financial plans are billed upon delivery of the financial plan.

Other Fees

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

PINNACLE WEALTH MANAGEMENT, LLC, in consultation with clients, may charge a lesser and/or greater investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, complexity, etc.).

Expense Ratios

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to PINNACLE WEALTH MANAGEMENT, LLC.

Past Due Accounts and Termination of Agreement

PINNACLE WEALTH MANAGEMENT, LLC reserves the right to stop work on any account that is more than 30 days overdue. In addition, PINNACLE WEALTH MANAGEMENT, LLC reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in PINNACLE WEALTH MANAGEMENT, LLC's judgment, to providing proper financial advice.

Performance-Based Fees

Sharing of Capital Gains

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

PINNACLE WEALTH MANAGEMENT, LLC does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

Types of Clients

Description

PINNACLE WEALTH MANAGEMENT, LLC generally provides investment advice to family members.

Client relationships vary in scope and length of service.

Account Minimums

There is no minimum account size required to open or maintain an account at PINNACLE WEALTH MANAGEMENT, LLC.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Modern Portfolio Theory, as recognized by the 1990 Nobel Prize, is the philosophical foundation for how portfolios are constructed. The underlying concepts of Modern Portfolio Theory include:

- 1) Investors are risk adverse
- 2) Markets are very efficient and it is very difficult to consistently anticipate the future direction of the market or of any individual security. It is, therefore, unlikely that any portfolio will succeed in consistently “beating the market” over time.
- 3) The design of the portfolio as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes (stocks, bonds, cash, etc.) will have far more influence on long term portfolio results than the selection of individual securities.
- 4) Global Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole.

Other important considerations

- 1) Equities offer the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).
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Investment Strategies

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these

objectives at any time. Each client executes an Investment Policy Statement that documents their objectives and their desired investment strategy and asset allocation.

Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas 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.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of

financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Disciplinary Information

Legal and Disciplinary

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

Other Financial Industry Activities and Affiliations

PINNACLE WEALTH MANAGEMENT, LLC does not have other financial industry activities or affiliations

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

Code of Ethics

The employees of PINNACLE WEALTH MANAGEMENT, LLC have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions

PINNACLE WEALTH MANAGEMENT, LLC and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the PINNACLE WEALTH MANAGEMENT, LLC *Compliance Manual*.

Personal Trading

The Chief Compliance Officer of PINNACLE WEALTH MANAGEMENT, LLC is Kevin L. Smith. He reviews all employee trades each quarter. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

Brokerage Practices

Selecting Brokerage Firms

PINNACLE WEALTH MANAGEMENT, LLC does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services.

PINNACLE WEALTH MANAGEMENT, LLC recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

PINNACLE WEALTH MANAGEMENT, LLC recommends discount brokerage firms and trust companies (qualified custodians), such as Charles Schwab.

PINNACLE WEALTH MANAGEMENT, does not receive fees or commissions from any of these arrangements.

Best Execution

PINNACLE WEALTH MANAGEMENT, LLC reviews the execution of trades at each custodian each quarter. The review is documented in the PINNACLE WEALTH MANAGEMENT, LLC *Compliance Manual*. Trading fees charged by the custodians is also reviewed on a quarterly basis. PINNACLE WEALTH MANAGEMENT, LLC does not receive any portion of the trading fees.

Soft Dollars

PINNACLE WEALTH MANAGEMENT, LLC does not receive any soft dollar credits

Review of Accounts

Periodic Reviews

Account reviews are performed quarterly. Account reviews are performed more frequently when market conditions dictate.

Review Triggers

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

Regular Reports

Clients receive periodic communications on at least an annual basis. The communication updates may include a net worth statement, portfolio statement, and a summary of objectives and progress towards meeting those objectives.

Client Referrals and Other Compensation

PINNACLE WEALTH MANAGEMENT, LLC does not accept outside referrals due to focus on Family Office Clients.

Custody

PINNACLE WEALTH MANAGEMENT, LLC does not offer custody services.

Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by PINNACLE WEALTH MANAGEMENT, LLC.

Net Worth Statements

Clients are frequently provided net worth statements. Net worth statements contain approximations of bank account balances provided by the client, as well as the value of land and hard-to-price real estate. The net worth statements are used for long-term financial planning purposes.

Investment Discretion

Discretionary Authority for Trading

PINNACLE WEALTH MANAGEMENT, LLC accepts discretionary authority to manage securities accounts on behalf of clients. PINNACLE WEALTH MANAGEMENT, LLC has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, PINNACLE WEALTH MANAGEMENT, LLC consults with the client prior to each trade to obtain concurrence if a blanket trading authorization has not been given.

The client approves the custodian to be used and the commission rates paid to the custodian. PINNACLE WEALTH MANAGEMENT, LLC does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades that you have approved.

Voting Client Securities

Proxy Votes

PINNACLE WEALTH MANAGEMENT, LLC does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, PINNACLE WEALTH MANAGEMENT, LLC will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

Financial Information

Financial Condition

PINNACLE WEALTH MANAGEMENT, LLC does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because PINNACLE WEALTH MANAGEMENT, LLC does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

Brochure Supplement (Part 2B of Form ADV)

Education and Business Standards

PINNACLE WEALTH MANAGEMENT, LLC requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of financial planning and tax planning. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

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Kevin L. Smith

Educational Background:

- Date of birth: 5-8-1959
- Institutions (U of W BA –Business 1981)
- (U of W EMBA 1997)

Business Experience:

- Pinnacle Wealth Management (1998 – Current)
- US WEST – Finance (1987-1997)

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None