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## PART 2A OF FORM ADV: FIRM BROCHURE



# SPECTRUM MANAGEMENT GROUP, LLC.

February 28, 2019

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### Item 1 – Cover Page

Spectrum Management Group, Inc.  
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This brochure provides information about the qualifications and business practices of Spectrum Management Group, Inc. If you have any questions about the contents of this brochure, please contact us at (317) 663-5600 or [spectrum-mgmt.com](http://spectrum-mgmt.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 Spectrum Management Group, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 154532. Registration does not imply any specific level of skill or training.

## **Item 2 – Material Changes**

Part 2 of Form ADV requires a registered investment adviser to amend its Brochure when information becomes materially inaccurate. If there are any material changes to an adviser's Brochure, the adviser is required to notify its clients and provide them with a description of the material changes.

Spectrum Management Group, Inc. ("SMG") will notify clients of material changes on an annual basis. However, where SMG's management determines that an interim notification is either meaningful or required, the Company will notify its clients promptly and provide them with a summary of such changes.

Our Brochure, Privacy Policy or Code of Ethics may be requested at any time by contacting Leslie D. Thompson, Chief Compliance Officer ("CCO"), at (317) 663-5600 or [lthompson@spectrum-mgmt.com](mailto:lthompson@spectrum-mgmt.com). Regardless of the request or delivery mechanism, our Brochure is available free of charge.

Since SMG's last annual update on March 21, 2018, our firm reports the following updates:

Item 1 Cover Page and Item 4 Advisory Business – Our firm reorganized into an LLC from an S-Corp. Controlling interests in the firm did not change.

Item 12 Brokerage and Item 14 Client Referrals and Other Compensation – As of 12/31/2018 our firm ceased its participation in the Schwab Advisor Network and no longer receives benefits from client referrals.

Spectrum's website address is [www.spectrum-mgmt.com](http://www.spectrum-mgmt.com)

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## **Item 4 – Advisory Business**

SMG is an Indiana corporation formed in March 2010 and has conducted business as an SEC-registered investment adviser since October 2010. In December 2018, the firm re-organized into an LLC from an S-Corp. The resultant re-organization did not change our management structure.

The principal owners of SMG are Robert C. Phillips, Managing Principal, Chief Executive Officer, and President and Leslie D. Thompson, Managing Principal, Chief Financial Officer, CCO, and Secretary.

Spectrum Management Group, Inc., (“SMG”) has endeavored to provide personalized, comprehensive wealth management strategies for growing, preserving and effectively transferring wealth for high net worth individuals and families, as well as providing investment management services to individual and institutional investors.

As of December 31, 2018, SMG had \$ 521,977,314 of discretionary assets under management and \$ 1,405,455 of non-discretionary assets under management.

Spectrum Management Group offers the following services:

### **Wealth Management Services**

Wealth management services, which SMG trademarked LifeSpectrum Planning™ is designed to build a framework for financial decision making. LifeSpectrum Planning™ entails an intensive data gathering process of the client’s current financial condition (including review of prior tax returns, investment holdings, insurance policies, estate documents and other relevant information), organizing the data, designing a financial plan to establish pre-defined goals, reporting the results of the plan, providing recommendations to fill any gaps that would prevent a client from reaching goals and assisting a client in implementing the plan. This service is designed to be an ongoing process of continual monitoring and refinement as circumstances dictate. However, it remains the client’s responsibility to promptly notify SMG if there is ever any change in the client’s financial situation or objectives. Implementation of the plan is inherent in SMG’s Wealth Management Service offering. A summary of SMG’s investment management services, which is also available on a stand-alone basis, is addressed below.

While SMG has Certified Public Accountants (CPA) on staff, neither SMG, nor any of its representatives, serve as an accountant when providing recommendations and no portion of SMG’s services should be construed as the same.

SMG may recommend the services of other professionals for certain non-investment implementation purposes (e.g., attorneys, accountants, insurance agents, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains discretion over all such implementation decisions and is free to accept or reject any recommendation from SMG.

### **Investment Management Services**

SMG provides discretionary investment management services to clients on a fee-only basis. Those clients that do not wish to engage in the comprehensive nature of SMG's Wealth Management offering may hire SMG to manage their investment assets on a standalone basis.

**Dynamic Core** - SMG has developed a proprietary investment strategy called Dynamic Core. This strategy dynamically manages the investment exposure to various asset classes. The strategy is designed to add exposure to risk assets (equities, fixed income, commodities, etc.) during periods of high probability of growth potential, which we term "Advance Mode" and reduce risk during periods of high probability of decline potential, which we term "Protect Mode". The strategy actively uses cash as a hedge when in Protect Mode. During various points in time, the strategy may hold a large percentage of its assets in cash. Similarly, the strategy may not be diversified across various assets classes and could be concentrated in specific asset classes.

SMG primarily allocates client investment assets among various exchange traded funds (ETFs), mutual funds, alternative investments and private specialist managers on a discretionary basis in accordance with the client's objectives. Recommendations to certain alternative investment structures require the written consent of the client to engage in such structures. These types of structures typically require an investor meet certain criteria to invest and require the investor to affirm that such criteria have been met and that they understand any restrictions for investing in such structures.

**SMG All Cap** - The SMG All Cap Strategy is designed to provide investors with exposure to high quality and strong relative strength U.S. stocks. Our research process begins with a fundamental view of our focus universe, which are stocks traded on a U.S. exchange with a market capitalization greater than \$1 billion. SMG's screening process is designed to identify companies that are projected to have strong sales and earnings growth while placing a strong emphasis on a company's free cash flow. We also may focus on companies in industries that we believe have near-term favorable macro factors. We incorporate a technical analysis overlay with a focus on relative strength. The end objective of our screening process is to select approximately 30 stocks for investment. Technical analysis and quantitative strategies often involve more frequent trading than a

buy and hold strategy, which leads to an increase in brokerage costs as well as the potential for less favorable tax treatment of short-term gains.

**SMG Dividend Growth** – The SMG Dividend Growth Strategy is designed to provide investors with diversified exposure to fundamentally attractive U.S. dividend paying stocks with an emphasis on companies with strong dividend growth. The strategy's goals are to provide income today, increase income annually, and provide competitive total returns over the long-run. Only stocks with a favorable combination of valuation, profitability and technical metrics are considered. Investments are analyzed and ranked on several measures, but are focused on dividend yield, shareholder yield, dividend growth, and dividend sustainability.

**SMG Macro Advance and Protect** – The SMG Macro Advance and Protect Strategy is designed to allocate up to five equity funds and four fixed-income funds, as well as a cash component, for a total allocation across 10 different asset classes. The top-level macroeconomic model determines the appropriate equity and fixed-income allocation relying on analysis of leading economic indicators, relative strength and market breadth indicators and the second-level indicators and ranking system to determine the allocation within the equity and fixed income baskets. While unlikely, the model could allocate 100% to cash, or any other single asset class. The strategy is reviewed on a monthly basis to determine if any changes should occur. The strategy is actively traded and could lead to less favorable tax treatment of investment gains. As such, this strategy is recommended for tax-deferred accounts.

**SMG Sector Rotation** – The SMG Sector Rotation Strategy is designed to gain exposure to the strongest relative strength sectors in the U.S. economy using 10 sector exchanged-traded funds and a cash component as its universe encompassing the following broad sectors: technology, healthcare, consumer discretionary, consumer staples, utilities, financials, material, communication services, industrials and energy. On a relative strength basis, should cash place within the top quarter of the various sectors, an allocation to cash will occur from varying degrees beginning at 25% up to a 100% cash allocation. The strategy is reviewed on a monthly basis to determine if any changes should occur. In times of high market volatility, the strategy could experience active trading and could generate less favorable tax treatment of investment gains.

From time-to-time, a client may designate the desire to purchase a specific security. In such event, SMG will indicate the security as “non-managed” and rely upon the client's further recommendation for the removal or sale of such security from the client's account. SMG is not obligated to provide on-going monitoring or due diligence of such “non-managed” security.

\*Prior to engaging SMG to provide Wealth Management or Investment Management Services, the client will be required to enter into a formal Investment Advisory Agreement with SMG setting forth the terms and conditions under which SMG shall manage the client's assets and the services expected to be performed. A separate custodial/clearing agreement with each designated broker-dealer/custodian will also be required to allow SMG to effectively manage the client's assets.

### **Family Office and Trust Services**

SMG also provides Family Office and Trust services. Family Office Services include wealth management, intergenerational wealth transfer strategies advice and planning, family meeting facilitation and education, guidance towards family governance, philanthropic planning, and investment management of client trust. The Family Office service targets clients with a minimum net worth of \$10 million. SMG may accept clients for this specialized service with less than the minimum who have special situations that require services provided through this service offering.

Trust Services are provided under the separate name of Spectrum Private Trust ("SPT"). SPT offers high net-worth individuals and families coordinated legacy planning of client estate plans. SPT acts as a trust representative office of National Advisors Trust Company, FSB ("NATC"). NATC is a federally chartered trust company supervised by the United States Comptroller of the Currency with authority to provide trustee and asset custody services for clients. SPT will meet with the client(s) and refer the clients' to NATC for trust development. Once established, SPT meets with the client in order to create an in-depth financial plan. SPT will review the plan on an ongoing basis and provide recommendations to the Trustee on implementing the plan(s). SMG offers planning and advice, while NATC acts as the Trustee of all Trusts and offers custodial services for client's assets.

### **Third Party Money Managers**

We monitor the performance of the selected registered investment adviser(s) for our consulting clients. If we determine that a particular selected registered investment adviser(s) is not providing sufficient management services to the client or is not managing the client's portfolio in a manner consistent with the client's investment policy, we may suggest that the client contract with a different registered investment adviser and/or program sponsor. Under this scenario, our firm may assist the client in selecting a new registered investment adviser and/or program. However, any move to a new registered investment adviser and/or program is solely at the discretion of the client.

## **Pension Consulting Services**

SMG provides consulting services to plan trustees of ERISA-based plans. SMG acknowledges it is an ERISA investment fiduciary. As requested by the trustees, SMG will assist in developing an Investment Policy Statement for the plan. SMG assumes the responsibility of the following:

- Providing professionally selected investment alternatives and risk-based models and portfolio alternatives;
- Investment model customization including ongoing active portfolio management, which also includes monitoring, rebalancing and adjustments to model portfolios;
- Ongoing manager due diligence;
- Conducting enrollment and educational meetings for plan participants; and
- Coordination between plan sponsors and third-party administrators.

## **Limited Consulting Services**

While rare, SMG may provide certain limited-scope consulting engagements, which could include a one-time financial planning engagement, investment portfolio review, facilitate family meetings, business succession planning, and consulting with personal representatives in estate matters that relate to financial assets. The fees for this service are dependent upon the complexity of the service provided.

## **Item 5 – Fees and Compensation**

### **Wealth Management and Investment Management Fees**

Wealth Management services are included with the fees charged for Investment Management and generally not a stand-alone service. SMG is compensated by charging its clients fees based upon a percentage of each client's assets under management. SMG's annual fees for services are based upon a percentage of assets under management not to exceed 1.25%. The most typical fee is the following schedule below:

Portfolio Value	Annualized Percentage
First \$1,000,000.....	1.00%
Next \$2,000,000.....	0.80%
Next \$2,000,000.....	0.70%
Next \$5,000,000.....	0.60%
Over \$10,000,000.....	0.50%



Although SMG has established the aforementioned fee schedule, we retain the discretion to negotiate an alternative fee schedule on a client-by-client basis based on the facts and circumstance of the client as well as the complexity of the service. The specific annual fee schedule is identified in the investment advisory agreement between SMG and each client. It should be noted that while the above fee schedule is our current stated fee schedule, existing clients may have an alternative schedule that was previously negotiated at a rate less than the above schedule.

Fees are billed quarterly, in advance, based on the custodial value of the client's account at the end of the previous calendar quarter multiplied by one-quarter of the applicable annual percentage rate. Should a client relationship be terminated during the middle of a calendar quarter, a prorated refund of prepaid advisory fees shall be returned to the client. The amount of any refund is calculated by dividing the most recent advisory fee paid by the total number of days in the current quarter and multiplying that figure by the number of calendar days remaining in the quarter following the date of termination. SMG has a written agreement with the client to have fees directly debited from the account. Clients may alternatively choose to be billed separately.

### **Family Office Services Fees**

Consulting services for Family Offices Services are separately negotiated with each client according to the size and complexity of the plan. Where clients receive Wealth Management services, fees are wrapped into the separately negotiated fee schedule as outlined in the client's separate agreement. In cases where clients do not receive Wealth Management Services, fees are generally charged on an hourly or flat rate basis as outlined in the client's separate consulting agreement.

### **Third Party Management Fees**

SMG Sub-Advisory Fee Schedule:           No more than .50 bps.

SMG is compensated directly for sub-advisory fees by the Investment Advisor (IA)) receiving the recommendations based on assets under management. SMG does not calculate the fee and relies on the IA to accurately calculate the fees in client accounts and remit the fee to SMG.

### **Pension Consulting Services Fees**

Pension consulting fees are separately contracted and negotiated with SMG by the Plans Sponsors. Fees are negotiated based on the complexity and size of the plan.

## **Limited Consulting Services Fees**

Consulting fees are charged on an hourly basis or fixed rate basis and agreed to in writing by the client. Fees are separately negotiated with the client based on the complexity of the services offered.

## **GENERAL INFORMATION**

***Termination of the Advisory Relationship:*** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded.

***Direct Debiting of Client Fees:*** SMG's agreement and/or the separate agreement with the Financial Institution(s) may authorize SMG through the Financial Institution(s) to debit the client's account for the amount of SMG's fee and to directly remit that management fee to SMG in accordance with applicable custody rules. The Financial Institution(s) recommended by SMG have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to SMG.

***Mutual Fund and ETF Fees:*** All fees paid to SMG for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

***ERISA Accounts:*** SMG is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, SMG may only charge fees for investment advice about products

for which our firm and/or our related persons do not receive any commissions or 12b-1 fees.

***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible any exchange fees and any fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transaction for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

***Advisory Fees in General:*** Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

***Limited Prepayment of Fees:*** Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.

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

SMG does not charge performance-based fees (fees that are based on a share of capital gains on or capital appreciation of the assets of the client). Additionally, SMG does not manage side-by-side accounts which charge performance-based fees and non-performance-based fees.

## **Item 7 – Types of Clients**

SMG's clients consist of individuals, high net worth individuals and their family members, business entities, qualified retirement plans, foundations, endowments, charitable organizations and trusts.

SMG has a standard minimum account size of \$1,000,000. Smaller accounts may be accepted based upon a number of factors including geographic considerations and related account relationships.

Where SMG provides recommendations, clients should be aware that the Trustee or separate IA may have minimum account requirements and the clients should refer to their respective service agent for disclosure documents and agreements, which outline minimums subject to investment management.

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

### **Methods of Analysis**

SMG uses a variety of resources and methods to conduct its analyses in connection with providing its advisory services. Following is a description of these resources and methods.

*Macro Analysis* – SMG takes a “top-down” view on the global economy and allocates capital across multiple asset classes, based on a number of factors including valuation, risk and future opportunity.

*Fundamental Analysis* – SMG attempts to measure the intrinsic value of a security by looking at economic and financial factors including the overall economy, industry conditions and the financial condition and management of the company itself to determine if the relevant security is underpriced or overpriced. SMG evaluates many financial metrics focusing on a company’s free cash flow and overall earnings growth.

*Technical Analysis* – SMG uses various technical indicators analyzing past price movements and applies analysis in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company. SMG uses technical analysis and a quantitative system as the basis for transacting (either on the buy or sell side) in individual securities (ETFs, individual stocks, no-load or load-waived mutual funds). Utilizing a quantitative system creates the potential for sudden losses if the anticipated price swing does not materialize. Quantitative strategies often involve more frequent trading than a buy and hold strategy, which leads to an increase in brokerage costs as well as the potential for less favorable tax treatment of short-term gains.

*Risks of All Forms of Analysis* – SMG’s securities analysis methods rely on the assumption that the companies in whose securities we invest, the rating agencies that review these securities and other publicly-available sources of information about these securities are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

### **Strategies**

SMG uses technical analysis and a quantitative system as an overlay strategy to our fundamental top-down and bottom-up research process. Quantitative strategies often involve more frequent trading than a buy and hold strategy, which could lead to an increase in brokerage costs as well as the potential for less favorable tax treatment of

short-term gains. If possible, we attempt to allocate purchases that have a high probability of being short-term in nature (less than one year) to tax-favored accounts.

We also consider a client's individual tax situation in making investment decisions. We attempt to maximize a client's after-tax return through selection of investments and/or asset classes that when considered against similar alternatives (e.g., taxable verses municipal bonds) could provide for a greater after-tax return. Additionally, we may purchase a specific investment in a tax-favored account to attempt to maximize after-tax returns. As such, it is possible for a specific client account to be heavily concentrated in a particular investment when not considering the overall asset allocation of the combined accounts.

## **Risk Factors**

All investment strategies, including the strategies of SMG described above, involve risk. Some strategies may be suitable only for certain clients who can bear the risk of loss of their entire investment. Clients should carefully consider the following risks and uncertainties regarding SMG's investment strategies. Clients should be cautioned that the following is only a summary of some, but not all, of the material risks associated with investing in securities.

*Risk of Loss – General.* Investing in securities involves risk of loss that clients should be prepared to bear. The profitability of recommendations made by SMG is dependent to a great extent upon correctly assessing the future course of price movements among investments. There can be no assurance that SMG will be able to predict those price movements accurately. Recommendations made by SMG are subject to certain risks, and loss of principal may occur. Past performance is not indicative of future results.

*Stock Market Risk.* Stock market risk involves the possibility that stock prices overall will decline over short or extended periods. Markets tend to move in cycles, with periods of rising prices and periods of falling prices. Investing in the stocks of small- and medium-sized companies involves greater risk than is customarily associated with companies with large market capitalizations. Stock of such companies may be subject to more volatility in price than large-cap company securities.

*Foreign Securities Risk.* Foreign securities are subject to the same market risks as U.S. securities, such as general economic conditions and company and industry prospects. However, foreign securities involve the additional risk of loss due to political, economic, legal, regulatory, and operational uncertainties; differing accounting and financial reporting standards; limited availability of information; currency conversion; and pricing factors affecting investments in the securities of foreign business or governments.

*Interest Rate Risk.* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds (including bond mutual funds and bond ETFs) become less attractive relative to newly issued bonds, causing the market values of the existing bonds to decline. Alternatively, when interest rates fall, yields on newly issued bonds become less attractive relative to existing bonds, causing the market values of the existing bonds to rise. A bond with a longer maturity (or a bond fund with a longer average maturity) typically will fluctuate more in price than a shorter-term bond. Because of their very short-term nature, money market instruments carry less interest rate risk.

*Credit Risk.* Bonds (including bond mutual funds and bond ETFs) also are exposed to credit risk, which is the possibility that the issuer of a bond will default on its obligation to pay interest and/or principal to the bondholder. U.S. Treasury securities, which are backed by the full faith and credit of the U.S. government, have limited credit risk, while securities issued or guaranteed by U.S. government agencies or government-sponsored enterprises that are not backed by the full faith and credit of the U.S. government may be subject to varying degrees of credit risk. Corporate bonds rated BBB or above by Standard & Poor's are generally considered to carry moderate credit risk. Corporate bonds rated lower than BBB are considered to have significant credit risk. Bonds with lower credit ratings generally have higher yields associated with them.

*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, U.S. Treasury Bills are highly liquid, while real estate properties are not. Liquidity risk exists when a particular security is difficult to trade. A mutual fund's or ETF's investment in illiquid securities may reduce the returns of the mutual fund and ETF because the fund may not be able to sell the securities at the desired time for an acceptable price or might not be able to sell the securities at all.

*Call Risk.* Many fixed income securities have a provision allowing the issuer to repay the debt early, otherwise known as a "call feature." Issuers often exercise this right when interest rates are low. Accordingly, holders of such callable securities may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, after a callable security is repaid early, a mutual fund typically reinvests the proceeds at current interest rates, which would likely be lower than those paid on the security that was called.

*ETFs and Mutual Funds.* An investment in an ETF or mutual fund involves risk, including the loss of principal. ETF and mutual fund shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains as ETFs and

mutual funds are required by law to distribute capital gains in the event, they sell securities for a profit.

The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

*Alternative Investments Risk.* Alternative investments, including, but not limited to, investment partnerships, alternative mutual funds, managed futures, and other private investment funds, may present unique risks. These risks may include decreased liquidity, limited transparency, and increased complexity, among others. Investing in alternatives, such as private investment funds, is intended primarily for experienced and sophisticated clients only who are willing to bear the high economic risks of the investment. Alternative investments typically use derivative instruments in their investment and trading strategies, such as options, futures, or index-based instruments. The use of derivative instruments involves multiple risks, including counterparty risk (i.e., the risk that the institution on the other side of the trade will default), as well as the risk that the instrument may not work as intended due to unanticipated developments in market conditions. In addition, to the extent that the alternative investment uses commodities (or commodity-based derivatives) as part of its investment and trading strategies, the investment return may also vary as a result of fluctuations in the supply and demand of the underlying commodities. Further, alternative investments, and particularly hedge funds, typically employ leveraging, short-selling, or other speculative practices. These investments also typically involve a lack of liquidity because of redemption terms and conditions, the risk there may be not be a secondary market for the fund, volatility of returns, restrictions on transferring interests in the investment, a potential lack of diversification, higher fees than mutual funds, and lack of information regarding valuations and pricing. In particular, private investment funds have liquidity risk and client investors may not be able to redeem their investments per the offering documents' disclosures.

## **Item 9 – Disciplinary Information**

Registered investment advisers, including SMG, are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of the company or its personnel. Neither SMG nor any of its associated persons has any reportable legal or disciplinary actions or events that must be disclosed in response to this item.

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

As disclosed in Item 5, SMG has Certified Public Accountants (CPA) on staff. SMG may recommend the services of affiliated persons or other professionals for certain non-investment implementation purposes (e.g., attorneys, accountants, insurance agents, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains discretion over all such implementation decisions and is free to accept or reject any recommendation made from SMG personnel.

SMG also operates under the separate name of Spectrum Private Trust. Advisory clients are referred to National Advisors Trust Company, FSB (“NATC”). NATC, a federally chartered trust company for the provision of trust and asset custody services. Members of management of SMG also are shareholders of NATC stock. No member of management owns a controlling ownership of any NATC stock or sits on the board of NATC. SMG refers clients to NATC for trust and custody services and has an agreement with NATC to act as a trust representative office of NATC. This relationship imposes inherent conflicts of interest in that SMG is compensated for services provided as a trust representative office. Clients are advised that no client is ever obligated to utilize the services of NATC as trustee or custodian.

Members of Management are also controlling owners of The Divorce Financial Strategies Group, LLC. (“TDFSG”). TDFSG provides divorce and family counseling services. As such, clients desiring these services may be referred to TDFSG by associated persons of TDFSG. This presents inherent conflicts as members of SMG are separately compensated for services provided by TDFSG. We mitigate this conflict by disclosing to clients that although clients may be recommended to TDFSG, no client is under any obligation to employ the services of TDSFG.

SMG endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment advisor; we take the following steps to address conflicts of interest and potential conflicts of interest:

- We disclose to clients the existence of all material conflicts of interest. We disclose to clients that they are not obligated to purchase recommended products from our employees or affiliated companies; and
- We periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm.



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

As an SEC-registered investment adviser, SMG has adopted a Code of Ethics pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). The Code of Ethics applies to all members, principals, managers, officers, employees, and supervised persons of SMG. The Code of Ethics includes SMG’s policies as they relate to standards of ethical and business conduct expected of personnel and addresses various reporting, disclosure, and approval requirements, as well as conflicts that may arise from personal trading by personnel, as summarized below.

The Code of Ethics, among other things, requires compliance with the federal securities laws, reflects the fiduciary responsibilities of SMG and its advisory personnel, prohibits certain personal securities transactions, requires personnel to periodically report their personal securities transactions and to pre-clear certain securities transactions, and addresses the prevention and misuse of material nonpublic information. SMG designed these requirements to prevent or mitigate actual or potential conflicts of interest with clients.

It is likely that employees and officers of SMG, and their family members, have similar investment strategies as SMG’s clients, which often results in the purchase or sale of the same security. In order to avoid any conflict of interest, all such trades are executed in an aggregate block with the average share price of the aggregate purchase or sale allocated to all participating accounts.

SMG and individuals associated with our firm are prohibited from engaging in principal transactions.

SMG and individuals associated with our firm are prohibited from engaging in agency cross transactions.

A copy of SMG’s Code of Ethics is available to any client or prospective client upon request. All requests should be directed to the Chief Compliance Officer at (317) 663-5600 or [spectrum-mgmt.com](mailto:spectrum-mgmt.com).

## **Item 12 – Brokerage Practices**

Unless otherwise directed by the client in writing, Spectrum will arrange for the execution of securities brokerage transactions for investment assets through a broker-dealer that Spectrum reasonably believes will provide “best execution”. SMG’s primary custody relationship is with the Schwab Institutional division of Charles Schwab & Co., Inc. (“Schwab”), a FINRA registered broker-dealer, member SIPC. Clients provide SMG with

written discretionary trading authority over all managed assets in the investment management agreement.

Discretionary clients must include any security specific limitations on this discretionary authority in their advisory agreement. Clients may change/amend these limitations. Such amendments must be provided to us in writing.

Factors that SMG considers in recommending Schwab include the financial strength, reputation, execution capabilities, pricing, research, and service. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Although the commissions and/or transaction fees paid by SMG's clients shall comply with SMG's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where SMG determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, SMG's investment management fee.

SMG may utilize aggregate trading where possible and when we deem may be reasonably advantageous to clients. SMG is not required and may choose not to aggregate trades for various reasons. Aggregation of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts and may allow SMG to direct trades in a more timely, efficient and equitable manner. The shares are allocated among the pre-determined accounts with the specified number of shares. Participating accounts receive an average share price. Transaction costs are shared on a pro-rata basis.

As referenced above, in special circumstances, a client may direct SMG to execute transactions through a particular broker-dealer, which must be identified in writing by the client to SMG (the "Directed Broker"). If a client directs SMG to use a Directed Broker, the client must represent and warrant to SMG that the client has separately arranged with the Directed Broker to provide the applicable custody, trade execution, clearance, settlement, and other brokerage services to client in exchange for rates of commissions, commission equivalents, mark-ups, markdowns, and other fees that the client has negotiated directly with the Directed Broker. If the client instructs SMG to execute all transactions through a Directed Broker: (i) SMG will not be in a position to freely negotiate rates of commissions, commission equivalents, markups, markdowns, or spreads; (ii) SMG may be unable to achieve the most favorable execution of the client's transactions; (iii) the directed brokerage arrangement may result in higher commissions, commission equivalents,

markups, and markdowns, greater spreads, or less favorable net prices; (iv) a disparity may exist between the commissions, commission equivalents, markups, markdowns, spreads, or net prices paid by the client and those paid by other clients managed by SMG that have not instructed SMG to execute through a Directed Broker; and (v) the client's transactions will trade separately and will not be aggregated for purposes of execution with orders for the same securities for other accounts managed by SMG.

### **Benefits Received from Schwab Institutional**

Schwab Institutional also makes available to our firm other products and services that benefit our firm but may not directly benefit all of our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist us in managing and administering our clients' accounts include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide research, pricing and other market data;
- facilitate payment of our fees from clients' accounts (direct debiting); and
- assist with back-office functions, recordkeeping and client reporting.

Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Schwab Institutional may also provide other benefits such as educational events or conferences for our personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

### **Brokerage for Client Referrals**

SMG no longer participates in the Schwab network and does not receive client referrals from any broker-dealer.

### **Item 13 – Review of Accounts**

For Wealth Management clients and Family Office Services, SMG Investment Advisor Representatives typically meet with clients two to four times a year. During these meetings, any updates to a client's financial plan are addressed and the investment portfolio is discussed. Reports are delivered as separately contracted by the client in the client's written agreement.

For Investment Management only clients, SMG typically meets with clients one to two times a year. During these meetings, SMG reviews the investment portfolio as well as addresses any changes in the client's situation that may impact the management of the portfolio and to determine if the current strategy should be altered. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian. Reports are available on-line to clients and generally not provided, unless separately contracted by the client.

Consulting Services clients are reviewed by the Investment Advisor representative and reports are only provided if contracted by the client.

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

SMG is required to disclose any relationship or arrangement where it receives an economic benefit from a third-party for providing advisory referral services. As of 12/31/2018, SMG no longer participated in the Schwab Advisor Network and no longer receives any benefit from a broker-dealer for client referrals.

Clients should also be aware that SMG will compensate our employees for referrals when the referral engages our firm for services. Employees will receive a portion of the revenue for the first year the client maintains a relationship with our firm. SMG may also continue to provide an incentive portion of the advisory fee, dependent on the employee's ongoing relationship with the client. Client's fees are not increased for these types of referral payments.

### **Item 15 – Custody**

Rule 206(4)-2 under the Investment Advisers Act of 1940 (the "Custody Rule") imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has a beneficial interest. An investment adviser

is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them. While SMG does not take actual possession of client funds or securities, SMG is deemed to have custody of client funds and securities because it has the ability to deduct fees directly from clients' accounts.

For clients whose fees are directly debited, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

## **Item 16 – Investment Discretion**

SMG receives discretionary authority from its clients at the outset of an advisory relationship. SMG is given this authority through an express grant of discretionary authority to SMG by the client and a power-of-attorney included in the investment advisory agreement between SMG and the client. Clients may make a written request for limitation on this authority (such as certain securities not to be bought or sold). SMG takes discretion over the following activities: the securities to be purchased or sold; the quantity of securities to be purchased or sold; when transactions are made; and the broker-dealer to be utilized.

## **Item 17– Voting Client Securities**

With the exception of specific accounts invested in the SMG All Cap and the Dividend Growth Strategies or accounts managed by a specialist third-party investment manager, SMG does not have authority to and does not vote proxies or otherwise exercise voting rights with respect to a client's securities. Except as otherwise disclosed herein, clients maintain exclusive responsibility for (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other types of events pertaining to the client's investment assets. As part of the account opening process, SMG and the client instruct the custodian to forward to the client copies of all proxies and shareholder communications relating to the client's account. As such,

clients will receive any proxies or other solicitations directly from their custodian. Client may contact SMG to discuss any questions they may have with a particular solicitation.

### **SMG All Cap and SMG Dividend Growth Strategies**

SMG may vote proxies for client accounts that are invested pursuant to the SMG All Cap and SMG Dividend Strategies. However, a client has the right to vote their proxies by instructing SMG in writing to not vote proxies for securities in their account. SMG has engaged Broadridge for its ProxyEdge service utilizing the voting recommendations of Glass Lewis & Co., LLC ("Glass Lewis"). This service researches proxy proposals, provides recommendations and votes proxies on behalf of SMG. SMG has adopted Glass Lewis's Proxy Voting Guidelines, which are hereby incorporated by reference.

SMG's CCO is responsible for monitoring the proxy voting process. The CCO strives to ensure that ProxyEdge is making voting decisions in the best interest of clients and that proxy votes are submitted in a timely manner. If SMG exercises proxy voting rights, it will be guided by general fiduciary principles and such voting rights will be exercised by SMG in a manner believed to be in the best interests of its clients and consistent with efforts to achieve a client's stated objective. When investment advisers have authority to vote proxies with respect to securities in clients' accounts, Rule 206(4)-6 under the Advisers Act addresses the fiduciary obligation of these advisers to their clients to vote proxies in the best interests of clients and to provide clients with information about how their proxies are voted. SMG will follow the principles set forth in Rule 206(4)-6.

If it is determined that a conflict or potential conflict exists between SMG's interests and those of its Clients, SMG may vote proxies notwithstanding the existence of the conflict. If it is determined that a conflict of interest or potential conflict of interest is material, SMG's CCO will work with appropriate personnel to agree upon a method to resolve such conflict before voting proxies affected by the conflict.

A client may obtain a copy of SMG's proxy voting policies and procedures, and information about how SMG voted any client's securities invested pursuant to the SMG All Cap Strategy, by making a request in writing to SMG's CCO, 600 E. 96<sup>th</sup> Street, Suite 130, Indianapolis, Indiana 46240.

## **Item 18 – Financial Information**

Under certain circumstances, registered investment advisers are required in this item to provide you with certain financial information or disclosures about the adviser's financial

condition. SMG does not take physical custody of its clients' assets and it does not require the prepayment of more than \$1,200 in fees six or more months in advance. Therefore, SMG is not required to include a financial statement with this Brochure.

SMG has no financial conditions or impairments that prevent it from meeting its contractual commitments to clients. Additionally, neither SMG nor any member of management with SMG has been the subject of a bankruptcy petition at any time during the past ten years.