

Firm Brochure ADV II

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This brochure provides information about the qualifications and business practices of Mercantile Advisors I, LLC (known also as **HERBERT R. SMITH & COMPANY and MERCANTILE INVESTMENT ADVISORS**) SEC Registrant #801-77019. If you have any questions concerning the contents of this brochure, please contact us at: (940) 723-5565, or by email at gabohannon@herbsmith.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 Mercantile Investment Advisors is available on the SEC's website at www.adviserinfo.sec.gov.

Current Assets under Management – Discretionary: \$121,845,167

Material Changes: None

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Mercantile Advisors, I LLC is a Financial Advisory firm specializing in investment management for individuals, trusts, institutions, retirement and education accounts. Offices are maintained in Wichita Falls, Texas.

Mercantile Advisors is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. This registration does not in itself denote approval of the

company or its practices, but does set forth requirements which must be met to maintain registration. Additionally, we are subject to regulatory audits from the SEC.

Principal Owners: Gloria Bohannon and John Ford

Advisory Business

Our only business is to provide investment management and services for both individuals and institutions using a combination of equities, fixed-income, exchanged-traded and mutual fund securities as well as cash funds. Allocation of these investments is based upon our current analyses of economic trends, markets, and investment opportunities. We are not stifled by restrictions as to 'style' or 'sector' investments, but continually assess market opportunities and allocate investments based upon value, growth projections, and income generation.

Tailored Relationships: Our investment portfolios speak to the individual needs of each client; their risk profile, income and growth requirements, as well as overall objectives. While using many of the same basic securities in most accounts, allocations are adjusted for particular needs such as risk tolerance, tax rates, retirement income, and fixed or equity only exposure.

Agreements: Clients are provided with an investment management agreement setting out the duties, responsibilities and guidance for both the client and advisor, including our fee structure. It stipulates the advisor's ability to invest funds in security markets and deduct quarterly fees from the account. We do not accept custody of a client's account according to the SEC definition. Charles Schwab is the primary custodian for our clients, but some can and do choose others. Regardless, necessary cash transfers are initiated by the client and move directly to or from specified financial institutions to the investment account without our intervention.

Fees and Compensation

We are a fee-based only firm. This means we do not participate in sales fees, 12b-1 fees, or commissions of any kind. Clients are billed quarterly in advance on a percentage of assets managed (see schedule below). Accounts may incur third party (bond broker) transaction costs and, in a few cases, custody fees for individual transactions. When using mutual funds, we select 'no-load' or funds which waive the sales fee.

Annual Expense ratio:	1.00% on the first	\$ 500,000
	.85%on the next	\$ 500,000
	.75%on the next	\$1,000,000
	.60%on the next	\$3,000,000
	.50%on the next	\$5,000,000

Account minimum \$500,000 – waived under certain circumstances.

Types of Accounts

Individuals, couples, and families
Retirement accounts
IRAs (conventional, rollover, Roth, Inherited)
401(k), 403 (b)
Profit Sharing Trust
Public and Private Pension Plans
Trusts, Family Limited Partnerships, Estates
Institutions
Foundations, Charitable Organizations

METHODS OF ANALYSIS -- Investment Strategies – Risk of Loss

Analysis: An overall financial assessment of the client is made in order to structure an asset allocation which matches both the overall return needs and the limitation of risk profile. This assessment is done, if necessary, quantitatively, but also based upon manager experience and client knowledge and an agreed upon level of asset allocation. We use a combination of stocks, exchange traded and mutual funds, bonds (tax-free and taxable) and money market instruments.

Fundamental: Securities are identified with the following characteristics:

- Current value as compared to the market and comparable securities
- Current and expected dividend yield
- Country/Industry/market exposure
- Expected return during anticipated holding period

Technical: Price and volume charts are utilized to anticipate both purchase and sales timing and to identify securities to review fundamentally. Charts are also utilized to anticipate possible market trends and adjust exposure accordingly while attempting to maintain at least the minimum agreed upon market exposure.

Risk of Loss: Most if not all investments are subject to risk of losing principal for various reasons. We attempt to measure the amount of risk associated with both the general market and individual securities or funds. No performance is guaranteed and strategies which were successful in the past may not be successful in the future.

Disciplinary Information

No disciplinary actions are or have been held against the firm, its management or staff.

Code of Ethics

We are committed to protecting the financial privacy of our clients. A notice is sent annually to our clients in accordance with privacy regulations of the SEC. As an investment advisor, we maintain a privacy policy to ensure the security and confidentiality of our clients' portfolio

information. This Privacy Policy explains what types of information we collect about our clients and how we safeguard the information.

Cross-trades: From time-to-time the advisor has to sell a particular security and has a client where the security matches a need. The goal of a cross trade is to buy the security at prices below what the market provides and sell at a price higher than available from the market. If there is more than one security to sell, the advisor will sample the bid side of the market to test the spreads and sell side. We send the cross list to one or more of our dealers to provide bids and offering prices for the transaction. Once it has determined that the cross is positive for both parties, we will execute the trades. Pricing is generally a very low cross cost designated by the broker.

Personal Trading: Officers may infrequently invest in the same securities that are purchased for client accounts. Officers will not be involved in any purchases or sales that might be construed as conflicting. Any transaction an officer/employee executes will be after the client or on a completely separate trading day. Our Personal Trading Policy and Code of Ethics are available upon request.

How we Select Brokers/Custodians

We seek to recommend a custodian/broker that will hold your assets and execute transactions on terms that are most advantageous when compared with other available providers and their services. We consider a wide range of factors, including: combination of transaction execution and asset custody services (generally without a separate fee for custody), capability to execute, clear, and settle trades (buy and sell for your account), breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.), and availability of investment research and tools that may assist us in making investment decisions.

Brokerage Practices

As stated previously, we do not maintain custody of client assets that we manage or on which we advise. However, we may be deemed to have custody of your assets if you give us authority or direct us to withdraw assets from your account (see Items 15 – Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We currently recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as their qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when [we/you] instruct them. While we recommend that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. Even though your account is maintained at Schwab, we may use other brokers (third party) to execute trades for your account as described below (see “Your brokerage and custody costs”).

Quality of Services

Competitive pricing (commission rates, margin interest rates, other fees, etc.) and a willingness to negotiate is very important. Of course, reputation, financial strength, and stability, including a history of prior service to us and our clients is fundamental.

Availability of other products and services that benefit us, as discussed below (see “Products and services available to us from “Schwab.”

Brokerage and Custody Costs

Schwab no longer charges commissions on trades and generally does not charge separately for custody services. These reductions benefit clients because overall asset-based fees paid are lower than they would be otherwise. In addition to asset-based fees, Schwab charges a flat dollar amount as a “prime broker” or “trade away” fee for each trade we execute through a different broker-dealer but where the securities bought or sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above.

Products and Services Available

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab’s business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while others help us manage and grow our business. Schwab’s support services are generally available on an unsolicited basis and at no charge to us. Following is a more detailed description of Schwab’s support services.

Services that benefit you: Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available include some of which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Services described in this paragraph are generally of direct benefit to our client accounts.

Services that may not directly benefit you: Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients’ accounts. They include investment research, both Schwab’s own and that of third parties. We may use this research to service all or a substantial number of our clients’ accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate confirms and statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients’ accounts

Assist with back-office functions, recordkeeping, and client reporting

Services that generally benefit us: Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

Educational conferences and events

Consulting on technology, compliance, legal, and business needs

Publications and conferences on practice management and business succession

Schwab may provide some of these services itself. In other cases, it will arrange the opportunity for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third parties fees.

Our interest in Schwab's services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. These services are not contingent upon us committing any specific amount of business to Schwab or assets in custody. We may have an incentive to recommend/request that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services and not Schwab's services that benefit only us. The availability of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

Soft dollar and hard dollar arrangements: We do not use "soft-dollars" for research as defined under Section 28(e). For the general benefit of the majority of clients, we do not use materials provided by Schwab for research, non-research, brokerage, and non-brokerage products and services. Charles Schwab provides our clients with custody services, compliance and regulatory research, and a basic level of security research. In return for these services, which generally benefit all clients, Schwab is used as an institutional broker using competitive institutional brokerage fee schedules. We do pay "hard-dollars" for third party research such as Bloomberg LP and Morningstar.

Order aggregation/allocation: Allocations to accounts are based upon current open to buy positions of each client as well as to the need of the portfolio based upon the characteristics of the individual security being allocated. Securities are aggregated when the accounts have the same underlying need for a particular investment. Allocations are made on a combination of the largest percentage cash position as well as the size limitation of the accounts. The ultimate allocations decision is made by the portfolio manager based upon all factors.

Review of Accounts

Daily: Maintain up-to-date portfolios balanced against daily activity

Weekly: Review cash allocations based upon agreed amount

Monthly: Review overall security allocations

Quarterly: Formalize security allocation exception report to target

Review Triggers:

Security sold, purchased, reduced or added to all core accounts

Allocation review triggers adjustments

Cash review triggers purchases

Regular reports:

Schwab provides monthly portfolio statements to all clients. We provide quarterly portfolio statements. As custodian, Schwab also provides annual 1099 tax reporting.

Pricing Policy:

The vast majority of pricing will come from data providers through Schwab and downloads into our portfolio management system. Securities which are not priced at month's end will be first priced from sources through Bloomberg LP. Securities not available from Bloomberg LP will be priced based upon a pricing matrix of like securities, maturity and credit quality.

Client referrals and other compensation

Incoming referrals: We offer discounted fees to current clients who refer new clients; 50% of the first quarter's fee is used to reduce the referring client's management fee up to 100%.

Custody

Under government regulations, we are deemed to have custody of your assets if you authorize us to instruct Schwab to deduct our advisory fees directly from your account, or if you grant us authority to move your money to a different account registration or another person's account. Schwab maintains actual custody of your assets. You will receive account statements directly from Schwab at least quarterly. They will be sent to the email or postal mailing address you provide. You should carefully review those statements promptly when you receive them. We also urge you to compare Schwab's account statements with the periodic portfolio reports you receive from us.

Investment Discretion

Discretionary trading authority and limited Power of Attorney: We manage securities and portfolios on behalf of our clients. In our advisory agreement clients are asked to allow us to assume discretionary authority over these investment portfolios and the whole investment process.

Clients also give us limited power of attorney (at time of inception) over their investment accounts to execute transactions (buys and sells), to draw out quarterly fees from the account

