



# Founders Capital Management, Inc. Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of Founders Capital Management, Inc. (“FCMI” or “Adviser”). If you have any questions about the contents of this brochure, please contact us at 713-877-1188. 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 FCMI is also available on the SEC’s website at:  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

FCMI's most recent update to Part 2 of Form ADV was made in January 2024. FCMI's business activities have not changed materially since the time of that update.

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## Advisory Business

FCMI primarily provides customized investment management services to individuals, high-net-worth individuals and associated trusts and estates, charitable organizations, pension and profit-sharing plans, and corporations or other legal entities. FCMI provides investment advice on a limited number of security types, and generally invests client assets in domestic and international stocks, bonds, mutual funds, exchange traded funds ("ETFs"), warrants, certificates of deposit, and options. FCMI works with each client to determine the client's individual needs, including investment objectives, risk tolerance, and desired return parameters, and to establish an appropriate investment profile. Clients choose from growth, balanced, and conservative strategies, and can impose reasonable restrictions on FCMI's management of their accounts.

FCMI was founded in 1995 and is owned by Grant E. Buce and James L. Walter. As of December 31, 2023, FCMI managed \$214,444,737 in assets (\$208,976,122 on a discretionary basis and \$5,468,615 on a non-discretionary basis).

## Fees and Compensation

FCMI charges an annual investment management fee based on the following schedule:

<u>Assets under management</u>	<u>Annual Fee</u>
First \$1,000,000	1.25%
Next \$1,000,000	0.80%
Amounts in excess of \$2 Million	0.60%

Based upon certain factors (such as account size, expected future additions, level of trading, and account complexity), fees may be negotiable and vary from client to client. In addition, FCMI has

waived or negotiated lower fees for certain clients, such as charitable organizations or employees' family members.

FCMI charges fees quarterly in arrears based on the account value at the end of the prior quarter, and clients authorize FCMI to deduct fees automatically from their brokerage accounts. If a client terminates the investment management agreement with FCMI in the middle of a billing period, FCMI will invoice the client for an amount that is pro-rated based on the number of days that the account was managed.

In addition to FCMI's investment management fees, clients bear trading costs and custodial fees. FCMI may invest a client's funds in mutual funds, and to the extent that clients' accounts are invested in mutual funds, these funds pay a separate layer of management, trading, and administrative expenses. Since mutual funds are generally available to the public on the same basis as they are purchased in FCMI's clients' accounts, a client who chooses to research, select, monitor, and manage his own mutual fund investments can avoid paying the advisory fee to FCMI for those assets.

The typical mutual fund management fee ranges from 0.20% of assets in the case of some bond funds to a high of 2.00% of assets in the case of some specialized stock funds.

In 2023, all of FCMI's discretionary account clients held their mutual fund shares in brokerage accounts with Charles Schwab & Co., Inc. ("Schwab") or TD Ameritrade ("Ameritrade"). Ameritrade was purchased by Schwab, and all of Ameritrade's assets were consolidated at Schwab in September of 2023. As of September 2023, all of FCMI's discretionary account clients held their mutual fund shares in brokerage accounts with Schwab. Schwab may charge a transaction fee to buy or sell shares of such funds. In some cases, the mutual fund and the brokerage firm have agreed to a service fee arrangement in which case the client is not charged a transaction fee.

FCMI's fees do not include any bank fees, margin interest, national securities exchange fees, custody fees, wire transfer fees or other costs or fees associated with securities transactions as required by law. Clients' funds awaiting investment may be placed in a money market fund; FCMI's fees do not include any internal fees or expenses of any money market fund.

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

FCMI does not charge any performance fees. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to FCMI.

## **Types of Clients**

FCMI primarily provides investment management services to individuals, high-net-worth individuals and associated trusts and estates, charitable organizations, pension and profit-sharing plans, and businesses and other legal entities. FCMI requires a minimum portfolio size of \$1 million, which can be comprised of multiple accounts. Based upon certain factors (such as account size, expected future additions, level of trading, and account complexity), minimum portfolio requirements may be negotiable and vary from client to client.

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

FCMI's Investment Committee is comprised of James L. Walter and Will R. Oliver. Messrs. Walter and Oliver are responsible for account management. FCMI uses research reports on economic conditions, industry groups and specific investments from brokerages and research firms. The

Investment Committee works together to conduct fundamental analysis on all securities recommended for client accounts. This analysis varies depending on the security in question. For stocks and bonds, the analysis generally includes a review of:

- The issuer's management;
- The amount and volatility of past profits or losses;
- The issuer's assets and liabilities, as well as any material changes from historical norms;
- Prospects for the issuer's industry, as well as the issuer's competitive position within that industry; and
- Any other factors considered relevant.

For mutual funds and ETFs the analysis generally includes a review of:

- The fund's management team;
- The fund's historical risk and return characteristics;
- The fund's exposure to sectors and individual issuers;
- The fund's fee structure; and
- Any other factors considered relevant.

The Investment Committee meets regularly to discuss existing and prospective investments. Investments are evaluated independently, as well as in the context of clients' existing holdings and sector exposures.

FCMI primarily invests for relatively long-term horizons, often for a year or more. However, market developments could cause FCMI to sell securities more quickly.

Depending on a client's investment objectives, FCMI might engage in short selling or option writing. The use of short selling and option writing poses additional risks that are discussed in detail with any clients who are considering the use of these investment vehicles.

All investing involves a risk of loss and any investment strategy offered by FCMI could lose money over short or even long periods. Performance could be hurt by several different market risks including, but not limited to:

- Stock market risk, which is the chance that overall stock prices will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- Sector risk, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market.
- Interest rate risk, which is the chance that interest rates will rise, causing the prices of fixed income securities to fall since the price of most fixed income securities move in the opposite direction of the change in interest rates. If clients hold a fixed income security to maturity, the change in its price before maturity may have little impact on the performance; however, if the client must sell the fixed income security before the maturity date, an increase in interest rates could result in a loss.
- Inflation risk, which results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if a client purchases a 5-year bond in which it can realize a coupon rate of 5%, but the rate of inflation is 6%, then the purchasing power of the cash flow has declined. For all but inflation-linked bonds, adjustable bonds or floating rate bonds, clients are exposed to inflation risk because

the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

### **Disciplinary Information**

FCMI and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

FCMI and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

FCMI and its related persons are generally permitted to trade alongside client accounts if the orders are entered in a manner to give the client the priority. For example, in the purchase or sale of securities, client orders are entered and executed prior to those of FCMI or a related person. FCMI or related persons do not trade on the same day as clients. Based on different trading days, FCMI and related personnel may obtain more favorable pricing than clients.

### **Best Execution**

In selecting broker dealers to execute client trades, FCMI has the obligation to seek to obtain best execution of client transactions, with the goal of maximizing value for the client under the circumstances occurring at the time of the transaction. When seeking best execution, FCMI considers the full range and quality of a broker-dealers services including, among other things, the value of research provided as well as execution capability, commission rate, financial responsibility, and responsiveness to inquiries.

FCMI uses Schwab as a custodian for client accounts. Schwab issues quarterly reports regarding Best Execution, which FCMI uses to review each firm's trading statistics.

### **Brokerage Practices**

For ease of account administration, FCMI generally recommends that clients arrange for their assets to be held with Schwab (Schwab generally does not charge a transaction fee to buy and sell securities). The main factors FCMI considers in recommending Schwab are substantially discounted commissions and FCMI's ability to electronically download client account data from Schwab each day. FCMI has managed client assets held at Schwab for many years and has found Schwab to offer good services at competitive prices.

### **Soft-Dollar Benefits**

FCMI receives certain products and services from Schwab for free or at discounted rates. These products and services include:

- The receipt of duplicate client confirmations, statements, and other account information;
- Direct advisory fee debiting capabilities;
- Access to an electronic network for order entry, including the simultaneous entry of trades on behalf of multiple client accounts;
- Morningstar, Inc. software that supports FCMI's research processes for mutual funds

and individual securities.

Morningstar, Inc. is not affiliated with FCMI or Schwab. However, Morningstar, Inc. offers discounts on its annual subscriptions to investment advisers whose clients maintain custody of their assets at Schwab. FCMI is unaware of any minimum requirements regarding the amount of commissions, trading, or assets in custody that are necessary to take advantage of these discounts. It is difficult to determine the exact economic benefit to FCMI from these discounts related to Schwab because Morningstar, Inc. regularly offers discounts of various types to attract and maintain business. FCMI estimates that the total economic benefit from discounts at Morningstar, Inc. is less than \$1,000 per year.

FCMI does not believe that clients whose accounts are held by Schwab bear any additional costs in connection with FCMI's receipt of the products and services. Furthermore, Schwab's provision of these products and services is not contingent upon FCMI formally committing any specific amount of business to Schwab. However, FCMI would not receive these products and services if client accounts were not held in custody and traded by Schwab. FCMI's receipt of these products and services creates a conflict of interest in connection with FCMI's recommendation of Schwab.

#### Aggregated Trades

At times FCMI may aggregate client trades to treat all clients fairly. Clients participating in an aggregate order receive the same average price and incur trading costs that are the same as would be paid if they were trading individually. FCMI will sometimes use block trading when buying or selling the same security in numerous accounts. Depending on the time it takes for a block trade to fill, there is a risk that there could be a slight difference in execution price, which could impact clients.

#### Client Referrals

FCMI does not compensate Schwab or any other custodian or broker/dealer for referring client accounts.

### **Review of Accounts**

FCMI reviews client accounts regularly, and at least quarterly. Accounts are reviewed based on consistency with client objectives, cash balances and requirements, income, potential for growth and portfolio volatility. Additionally, FCMI reviews account holdings, with an eye for such factors as diversification, over/under weighting and unrealized gain/loss. Reviewed portfolio reports are stored electronically as a means for documentation.

### **Client Referrals and Other Compensation**

FCMI does not pay any portion of its advisory fees to other registered investment advisers in connection with that adviser's referral of a client to FCMI.

Other than the previously described products and services that FCMI receives from Schwab, FCMI does not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients.

### **Custody**

FCMI relies upon multiple sources, including Schwab and the SEC, in defining custody as holding client funds or having the authority to obtain possession of them. Additionally, FCMI relies upon

multiple industry reports which offer advice on how to avoid custody. This advice centers upon authorizations by clients to FCMI, which typically occur when an account is opened, i.e. third-party wires.

### **Investment Discretion**

FCMI has investment discretion over most clients' accounts. Clients grant FCMI trading discretion through the execution of a limited power of attorney included in FCMI's portfolio management agreement and included in custodians' account applications. Clients can place reasonable restrictions on FCMI's investment discretion. For example, some clients have asked FCMI not to buy securities issued by companies in certain industries, or not to sell certain securities in which the client has a particularly low tax basis.

### **Voting Client Securities**

It is FCMI's policy to use ProxyEdge automatic voting service for clients who choose to have FCMI vote proxies. Additionally, shares are voted in what FCMI believes to be the best interest of clients, which is typically in favor of management on routine issues. Issues deemed critical, i.e. change of control, are decided on a case-by-case basis.

Material conflicts that may arise between FCMI and clients are resolved in favor of the client.

Past proxy votes are available upon written request. Upon written request clients can also take responsibility for voting their own proxies or can give FCMI instructions on how to vote their respective shares.

In the case where an issuer intends to file or has filed additional soliciting materials with the Commission regarding a matter to be voted upon, our policy is to rely upon ProxyEdge to maintain awareness of such occurrences.

### **Financial Information**

FCMI has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.