

**Part 2A of Form ADV: *Firm Brochure***

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This brochure provides information about the qualifications and business practices of Phillips Ray Capital Management. If you have any questions about the contents of this brochure, please contact us at 817-338-4223 or [bphillips@phillipsray.com](mailto:bphillips@phillipsray.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. Registration does not imply any particular level of skill or training.

Additional information about Phillips Ray Capital Management is also 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 114408.

## **Item 2     Material Changes**

This Firm Brochure dated August 14, 2023 provides you with a summary of Phillips Ray Capital Management's services and fees, professionals, certain business practices and policies, as well as actual or potential conflicts of interest, among other things. This Item is used to provide our clients with a summary of new and/or updated information; we will inform of the revision(s) based on the nature of the information as follows:

- **Annual Update:** We are required to update certain information at least annually, within 90 days of our firm's fiscal year end (FYE) of December 31. We will provide you with either a summary of the revised information with an offer to deliver the full revised Brochure within 120 days of our FYE or we will provide you with our revised Brochure that will include a summary of the changes in this Item.
- **Material Changes:** Should a material change in our operations occur, depending on its nature, we will promptly communicate this change to clients (and it will be summarized in this Item). "Material changes" requiring prompt notification will include changes of ownership or control, location, disciplinary proceedings, significant changes to our advisory services or advisory affiliates – any information that is critical to a client's full understanding of who we are, how to find us, and how we do business.

Since our last annual updating amendment dated March 2023, there were no material changes made with this amendment.

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#### **Item 4     Advisory Business**

Phillips Ray Capital Management, Inc. is an investment adviser with its principal place of business located in Fort Worth, Texas. Phillips Ray Capital Management, Inc. began conducting business in 2002. Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Brian Michael Phillips, President, Chief Compliance Officer, Treasurer & Director

Phillips Ray Capital Management offers the following advisory services to our clients:

#### **PORTFOLIO MANAGEMENT SERVICES**

Our firm provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. Portfolios most typically will consist of individual equities (including exchange-listed securities, securities traded over the counter or foreign issuers), bonds (including warrants, corporate debt securities (other than commercial paper), commercial paper, certificates of deposit, municipal securities and United States governmental securities) and no load or load-waived mutual funds. However, we may provide advice with respect to any of the following securities, which may also be included in a client's portfolio, as appropriate: variable life insurance, variable annuities, options contracts on securities, and interests in partnerships investing in real estate or oil and gas interests.

We will allocate the client's assets among various investments taking into consideration the overall management style selected by the client. Mutual funds are selected based on any or all of the following criteria: the fund's performance history; the industry sector in which the fund invests; the track record of the fund's manager; the fund's investment objectives; the fund's management style and philosophy; and the fund's management fee structure. Portfolio weighing between funds or other securities, as well as market sectors, will be determined by each client's individual needs and circumstances. Clients will have the opportunity to place reasonable restrictions on the types of investments which will be made on the client's behalf. Clients will retain individual ownership of all securities.

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

#### **PORTFOLIO CONSULTING SERVICES**

For clients who do not use our Portfolio Management Services, we may provide individualized consulting services and review various investment alternatives for the client to determine which of these investment alternatives or a mix of various investments is most appropriate based on the client's individual financial circumstances, investment objectives, risk tolerances and income requirements among other factors.

Under this service, we will make investment recommendations to the client as market factors and the client's needs dictate. This service is provided by Phillips Ray Capital Management on a consulting basis only. Once the investment recommendations are made, it is up to the client to implement the recommendations if he/she decides to do so. We will not accept any client's username and password or other access or authority to access any client's account to implement recommendations or otherwise.

If requested, client investments may also be reviewed or monitored quarterly or on an as needed basis. In addition, if requested, we will meet with the client at least annually to review performance, allocation of assets, tax liability issues, update the client's profile to reflect any changes in client circumstances, and review and effect any change of beneficiaries.

### **CONSULTING SERVICES**

Clients can also receive investment advice on a more focused basis. This may include advice on an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2023, we were actively managing \$75,140,789 of clients' assets on a discretionary basis and \$15,531,040 of clients' assets on a non-discretionary basis.

## Item 5 Fees and Compensation

### PORTFOLIO MANAGEMENT SERVICES

The annual fee for portfolio management services under the strategies that we offer below will be charged as a percentage of assets under management, according to the following schedule:

#### 1) **Growth/Conservative Growth:**

<u>Assets Under Management</u>	<u>Annual Fee (%)</u>
Under \$250,000	1.6%
\$250,001 - \$500,000	1.2%
\$500,001 - \$1,000,000	0.90%
\$1,000,001 - \$1,500,000	0.70%
Over \$1,500,000	0.60%

#### 2) **Income:**

0.50% of assets under management.

Clients will be invoiced, or their account directly debited, as authorized, in arrears at the beginning of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter.

We require a minimum account size of \$250,000 of assets under management for this service. This minimum account size and the above fee schedule may be negotiable under certain circumstances. As appropriate, when the client's account includes assets managed under both the Growth/Conservative and Income strategies, the fee charged on the assets under each strategy will be in accordance with the above fee schedule or as negotiated with the client.

**Limited Negotiability of Advisory Fees:** Although Phillips Ray Capital Management has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule will be identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

### PORTFOLIO CONSULTING / CONSULTING SERVICES FEES

Phillips Ray Capital Management's Consulting Services fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Consulting fees will be calculated based on an hourly charge of \$250 per hour. We may quote a fixed fee based on the anticipated number of hours required to complete the service requested by the client. Alternatively, we may charge .50% annually, billable on a calendar quarter basis based on the closing statement value at the end of each quarter. Consulting fees are charged on a quarterly basis in arrears, or at a time agreed upon by Phillips Ray Capital Management and the client.

## **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. As disclosed above, certain fees may be paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

***Mutual Fund Fees:*** All fees paid to Phillips Ray Capital Management for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or exchange-traded funds (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.

***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible for the 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 transactions 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 (or unregistered) investment advisers for similar or lower fees.

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

Generally, Phillips Ray Capital Management does not charge performance-based fees. However, with respect to our firm's Portfolio Consulting Services, Phillips Ray Capital Management may charge performance-based fee to a "qualified client," as such term is defined under the U.S. Investment Advisers Act of 1940, as amended, and the rules thereunder. Such performance-based fees are charged on a limited, case-by-case basis in instances where a qualified client is interested in a particular investment and not a diversified portfolio.

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee-paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest, our firm has implemented policies and procedures designed to ensure that all their advisory clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities.



**Item 7    Types of Clients**

Phillips Ray Capital Management provides advisory services to individuals, including high net worth individuals, pension and profit-sharing plans (other than plan participants), trusts, charitable organizations, corporations or other businesses.

As previously disclosed in Item 5, our firm has established certain initial minimum account requirements, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

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

### ***METHODS OF ANALYSIS***

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

***Fundamental Analysis.*** We attempt 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 company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

***Technical Analysis.*** We analyze past market movements and apply that analysis to the present 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. This presents a risk in that a poorly managed or financially unsound company may underperform regardless of market movement.

***Risks for all forms of analysis.*** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, 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.

### ***INVESTMENT STRATEGIES***

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

***Long-term purchases.*** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically, we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

***Short-term purchases.*** When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-

term purchase, or potentially taking a loss.

In addition, this strategy involves more frequent trading than does a longer-term strategy and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

**Trading.** We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

Utilizing a trading strategy creates the potential for sudden losses if the anticipated price swing does not materialize. Moreover, under those circumstances, we are left with few options:

- having a long-term investment in a security that was designed to be a short-term purchase, or
- the potential of having to take a loss.

In addition, because this strategy involves more frequent trading than does a longer-term strategy, there will be a resultant increase in brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

**Short sales.** We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, the client account realizes the profit.

Short selling results in some unique risks:

1. *Losses can be infinite.* A short sale loses when the stock price rises, and a stock is not limited (at least, theoretically) in how high it can go. For example, if you short 100 shares at \$50 each, hoping to make a profit but the shares increase to \$75 per share, you'd lose \$2,500. On the other hand, the price of a stock cannot fall below \$0, which limits your potential upside.
2. *Short squeezes can wring out profits.* As stock prices increase, short seller losses also increase as sellers rush to buy the stock to cover their positions. This increase in demand, in turn, further drives the prices up.
3. *Timing.* Even if we are correct in determining that the price of a stock will decline, we run the risk of incorrectly determining when the decline will take place, i.e., being right too soon. Although a company is overvalued, it could conceivably take some time for the price to come down; during which you are vulnerable to interest, margin calls, etc.
4. *Inflation.* History has shown that over the long term, most stocks appreciate. Even if a company barely improves over time, inflation should drive its share price up somewhat. In fact, short selling may not be appropriate in times of inflation for that very reason, as prices may adjust upwards regardless of the value of the stock.

**Margin transactions.** We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

**Option writing.** We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
- A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

## **RISK OF LOSS**

**Clients should understand that all investment strategies and the investments made when implementing those investment strategies involve risk of loss and clients should be prepared to bear the loss of assets invested. The investment performance and the success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a client's investments fluctuates due to market conditions and other factors. The investment decisions made, and the actions taken for client accounts are subject to various market, liquidity, currency, economic and political risks, and will not necessarily be profitable. Past performance of client accounts is not indicative of future performance.**

This Brochure does not include every potential risk associated with an investment strategy, or all of the risks applicable to a particular client account. Rather, it is a general description of the nature and risks of the strategies and securities and other financial instruments in which client accounts may invest. The following risks may apply to strategies managed by us:

**Asset Class Risk** – Securities in a portfolio may underperform in comparison to the general securities markets, a particular securities market, or other asset classes.

**Capital Markets Risk** – The risk that the client may not receive distributions or may experience a significant loss in the value of their investment if the issuer cannot obtain funding in the capital markets.

**Competition; Availability of Investments** – Certain markets in which we invest or may invest client assets are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that we will be able to identify or

successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. There has been significant growth in the number of firms organized to make such investments, which may result in increased competition to us in obtaining suitable investments.

**Concentration Risk** – The increased risk of loss associated with not having a diversified portfolio (i.e., client accounts concentrated in a geographic region, industry sector or issuer are more likely to experience greater loss due to an adverse economic, business or political development affecting the region, sector or issuer than an account that is diversified and therefore has less overall exposure to a particular region, sector or issuer).

**COVID 19** - An outbreak of respiratory disease caused by a novel coronavirus was first detected in China in December 2019 and subsequently spread internationally. This coronavirus has resulted in closing borders, enhanced health screenings, healthcare service preparation and delivery, quarantines, cancellations, disruptions to supply chains, workflow operations and customer activity, as well as general concern and uncertainty. The impact of this coronavirus may be short-term or may last for an extended period of time and result in a substantial economic downturn. Health crises caused by outbreaks, such as the coronavirus outbreak, may exacerbate other pre-existing political, social and economic risks. The impact of this outbreak, and other epidemics and pandemics that may arise in the future, could negatively affect the worldwide economy, as well as the economies of individual countries, individual companies (including fund service providers) and the market in general in significant and unforeseen ways. Any such impact could adversely affect the performance of a client's investments.

**Cyber Security Risk** – With the increased use of technologies such as the Internet to conduct business, a portfolio is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and are not limited to, gaining unauthorized access to digital systems, and misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches by a third party service provider and the issuers of securities in which the portfolio invests, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.

**Environmental Risks** – The risk of loss as a result of statutes, rules and regulations relating to environmental protection negatively impacting the business of the issuers.

**Equity Risks** – The market price of securities owned by clients may go up or down, sometimes rapidly or unpredictably. The equity securities in clients' portfolios may decline in value due to factors affecting equity securities markets generally or the energy sector. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, including the basic minerals sector, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which we believe are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame we anticipate. As a result, clients may lose all or substantially all of their investments in any particular instance.

**Fixed Income Securities** – We may invest client assets in bonds or other fixed income securities of issuers including, without limitation, bonds, notes and debentures issued by corporations; debt securities and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The

value of fixed income securities in which we invest will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

**General Economic and Market Conditions** – The success of our activities is affected by general economic and market conditions, such as changes in interest rates, availability of credit and debt-related issues, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of client investments), trade barriers, unemployment rates, release of economic data, currency exchange controls and national and international political circumstances (including wars, terrorist acts, pandemics, natural disasters, security operations, the European debt crisis or the U.S. budget negotiations). These factors may affect the level and volatility of securities prices and the liquidity of client investments. Volatility and/or illiquidity could impair profitability or result in losses. Clients could incur material losses even if we react quickly to difficult market or economic conditions, and there can be no assurance that clients will not suffer material losses and other adverse effects from broad and rapid changes in economic and market conditions in the future. Clients should realize that markets for the financial instruments in which we invest client assets can correlate strongly with each other at times or in ways that are difficult for us to predict. Even a well-analyzed approach may not protect clients from significant losses under certain market conditions.

**Highly Volatile Markets** – The prices of financial instruments in which we may invest client assets can be highly volatile. Price movements of the financial instruments in which client assets are invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. Clients are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses. In addition, governments from time to time intervene in certain markets, directly and by regulation, particularly in currencies, futures and options. Such intervention is often intended to directly influence prices and may, together with other factors, cause some or all of these markets to move rapidly in the same direction. The effect of such intervention is often heightened by a group of governments acting in concert.

**Income Risk** – A client's portfolio income may decline when interest rates decrease. During periods of falling interest rates an issuer may be able to repay principal prior to the security's maturity ("prepayment"), causing the client's portfolio to have to reinvest in securities with a lower yield, resulting in a decline in the client's portfolio income.

**Index-Related Risk** – Index strategies are passively managed and do not take defensive positions in declining markets. There is no guarantee that a client's portfolio managed to an index strategy ("index portfolio") will achieve a high degree of correlation to its underlying index and therefore achieve its investment objective. Market disruptions and regulatory restrictions could have an adverse effect on the index portfolio's ability to adjust its exposure to the required levels in order to track its underlying index. Errors in index data may occur from time to time and may not be identified and corrected for a period of time and may have an adverse impact on a portfolio managed to the index. The index provider does not provide any warranty or accept any liability in relation to the quality, accuracy or completeness of data in respect of their indices and does not guarantee that the Index will be in line with its described index methodology. Errors and rebalances carried out by the index provider to the underlying index may increase the costs and market exposure risk of a portfolio.

**Interest Rate Risk** – When interest rates increase, fixed income securities or instruments will generally decline in value. Long-term fixed income securities or instruments will normally have more price volatility because of this risk than short-term fixed income securities or instruments.

**Investment and Trading Risks Generally** – All investments risk the loss of capital. No guarantee or representation is or can be made that our investment program will be successful. Our investment

program may involve, without limitation, risks associated with limited diversification, short-selling, commodity interest trading, equity risks, distressed issuers, interest rates, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in our activities. Certain investment techniques may, in certain circumstances, substantially increase the impact of adverse market movements to which our clients may be subject. In addition, client investments may be materially affected by conditions in the financial markets and U.S. and worldwide economic conditions. Our methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

**Investment Style Risk** – Different investment styles tend to shift in and out of favor depending upon market and economic conditions and investor sentiment. Client portfolios may outperform or underperform other client portfolios that invest in similar asset classes but employ different investment styles.

**Large-Cap Company Risk** – Larger, more established companies may be unable to attain the high growth rates of successful, smaller companies during periods of economic expansion.

**Liquidity Risk** – The risk that a client may not be able to monetize investments and may have to hold to maturity or may also only be able to obtain a lower price for investments either because those investments have become less liquid or illiquid in response to market developments or adverse investor perceptions. Investments that are illiquid or that trade in lower volumes may be more difficult to value.

**Litigation** – Our investment activities may subject us, our affiliates and our clients to the risks of becoming involved in litigation with third parties. The expense of defending against claims against a client by third parties and the payment of any amounts pursuant to settlements or judgments would be borne by the client. We and our affiliates will generally be indemnified by its clients in connection with any such litigation, subject to certain conditions.

**Low Trading Volume Risk** – The risk that a client may not be able to monetize his/her investment or will have to do so at a loss as a result of generally lower trading volumes of the securities compared to other types of securities or financial instruments.

**Management and Strategy Risk** – The value of a client's investment depends on our judgment about the quality, relative yield, value or market trends affecting a particular security, industry, sector or region, which may prove to be incorrect. Investment strategies employed by us in selecting investments for a client may not result in an increase in the value of the client's investment or in overall performance equal to other investments.

**Market/Volatility Risk** – The risk that the value of the assets in which a client invests may decrease (potentially dramatically) in response to the prospects of individual companies, particular industry sectors or governments, changes in interest rates and national and international political and economic events due to increasingly interconnected global economies and financial markets.

**Micro-cap Companies Risk** – Stock prices of microcap companies are significantly more volatile, and more vulnerable to adverse business and economic developments, than those of larger companies. Microcap stocks may also be thinly traded, making it difficult for a client's portfolio to buy and sell them.

**Municipal Securities Risk** – Municipal securities can be significantly affected by political or economic changes, as well as uncertainties in the municipal market related to taxation, changes in interest rates, relative lack of information about certain issuers of municipal securities, legislative changes or the rights of municipal security holders. Municipal securities backed by current or anticipated revenues from a specific project or specific assets can be negatively affected by the inability to collect revenues for the project or from the assets.

**Non-Diversification Risk** – Non-diversification of investments means a client's portfolio may invest a substantial percentage of its assets in securities issued by or representing a small number of issuers or exposure types. As a result, a client's portfolio performance may depend on the performance of a small number of issuers or exposures.

**Operational Risk** – The risk of loss arising from shortcomings or failures in internal processes or systems, external events impacting those systems and human error. Operational risk can arise from many factors ranging from routine processing errors to potentially costly incidents such as major system failures.

**Portfolio Turnover Risk** – Active and frequent trading of securities and financial instruments in a client's portfolio may result in increased transaction costs, including potentially substantial brokerage commissions, fees and other transaction costs. In addition, frequent trading is likely to result in short-term capital gains tax treatment. As a result of portfolio turnover, the performance of a client's portfolio may be adversely affected.

**Position Limits** – "Position limits" imposed by various regulators may also limit our ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular financial instrument. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if we do not intend to exceed applicable position limits, it is possible that different accounts managed by us may be aggregated. To the extent that client position limits were collapsed, the effect on clients and resulting restriction on their investment activities may be significant. If at any time positions managed by us were to exceed applicable position limits, we would be required to liquidate positions of our clients to the extent necessary to come within those limits. Further, to avoid exceeding the position limits, we might have to forego or modify certain of the client contemplated trades.

**Private Investment Risk** – Investments in private investments, which may include debt or equity investments in operating and holding companies, investment funds, joint ventures, royalty streams, commodities, physical assets and other similar types of investments that are highly illiquid and long-term. A client's ability to transfer and/or dispose of private investments is expected to be highly restricted.

**Put and Call Options** – We, on behalf of our clients, may also purchase exchange-listed and over-the-counter put and call options on specific securities or commodities interests. In addition, we may write and sell covered or uncovered call and put option contracts. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security or commodities interest at a stated exercise price at any time prior to the expiration of the option. Similarly, a put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying security or commodities interest at a stated exercise price at any time prior to the expiration of the option. Options written by our clients may be wholly or partially covered (meaning that the client holds an offsetting position) or uncovered. Options on specific securities or commodities interests may be used by to seek enhanced profits with respect to a particular security or commodities interest. Alternatively, we may use options for various defensive or hedging purposes.

Use of put and call options may result in losses to clients, force the sale or purchase of portfolio holdings at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation clients can realize on their investments or cause a client to hold a security or commodities interest it might otherwise sell. For example, a decline in the market price of a particular security could result in a complete loss of the amount expended by a client to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by a client. The use of uncovered option writing techniques may entail greater risks of potential loss to a client than other forms of options transactions. For example, a rise in the market price of the underlying security will result in clients realizing a loss on the calls written, which would not be offset by the increase in the value of the security or commodities interest to the



extent the call option position was uncovered.

**Short Sales** – We, on behalf of our clients, may effect short sales of securities, commodities and derivative investments made in the over-the-counter markets. Short selling is the practice of selling securities, commodities or other underlying investments (as applicable, “Underlying Investments”) or derivative investments that are not owned by the seller, generally when the seller anticipates a decline in the price of the underlying investment or for hedging purposes. To complete a short sale, clients generally must borrow the Underlying Investments from a third party in order to make delivery to the buyer. We generally will be required to pay a brokerage commission that will increase the cost to clients of selling such Underlying Investments. The proceeds of the short sale plus additional cash or Underlying Investments must be deposited as collateral with the lender of the Underlying Investments to the extent necessary to meet margin requirements. The amount of the required deposit will be adjusted periodically to reflect any change in the market price of the Underlying Investments that a client is required to return to the lender. The client generally will be entitled to receive payments from the lender with respect to the short sale proceeds and additional cash on deposit with the lender at negotiated interest rates. The client will be obligated to return the applicable Underlying Investments equivalent to those borrowed at any time on demand of the lender of the Underlying Investments borrowed by purchasing them at the market price at the time of replacement. Until the Underlying Investments are replaced, the client will be required to pay to the lender amounts equal to any dividends or interest that accrue during the period of the loan of the Underlying Investments. An increase in the value of any Underlying Investment that is the subject of short selling by a client may, as a result of the foregoing, have a material adverse effect on the assets of the client, and therefore the return on investment of the client.

**Small-Cap and Mid-Cap Company Risk** – The securities of small-capitalization and mid-capitalization companies may be subject to more abrupt or erratic market movements and may have lower trading volumes or more erratic trading than securities of larger, more established companies or market averages in general. In addition, such companies typically are more likely to be adversely affected than large capitalization companies by changes in earning results, business prospects, investor expectations or poor economic or market conditions.

**Tax, Legal and Regulatory Risks** – The risk of loss due to increased costs and reduced investment and trading opportunities resulting from unanticipated legal, tax and regulatory changes, including the risk that the current tax treatment of securities, such as MLPs, could change in a manner that would have adverse consequences for existing investors.

**Terrorist Attacks, War and Natural Disasters** – Terrorist activities, anti-terrorist efforts, armed conflicts involving the United States or its interests abroad and natural disasters may adversely affect the United States, its financial markets and global economies and markets and could prevent us and our clients from meeting their respective investment objectives and other obligations. The potential for future terrorist attacks, the national and international response to terrorist attacks, acts of war or hostility, domestic insurrections, civil unrest, natural disasters and other recent events such as pandemics, epidemics, and other outbreaks of infectious diseases, have created many economic and political uncertainties, which may adversely affect the United States and world financial markets and our clients for the short or long-term in ways that cannot presently be predicted.

**Underperformance Risk** – The risk that the strategy may underperform the underlying investments due to reasons such as the capped feature of one or more investments and the fact that such structured investments do not receive dividends

**Item 9     Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Phillips Ray Capital Management and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Phillips Ray Capital Management's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [bphillips@phillipsray.com](mailto:bphillips@phillipsray.com), or by calling us at 817-338-4223.

Phillips Ray Capital Management and individuals associated with our firm are prohibited from engaging in principal transactions. Phillips Ray Capital Management and individuals associated with our firm are also prohibited from engaging in agency cross transactions.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

## Item 12 Brokerage Practices

Phillips Ray Capital Management does not accept the discretionary authority to determine the broker dealer to be used or the commission rates to be paid on a trade-by-trade basis. As such, clients must direct the firm regarding which broker dealer to use for trades placed in the client's account. Phillips Ray Capital Management requests that clients custody accounts at National Financial Services, LLC (NFS), an affiliate of Fidelity Brokerage Services, LLC (Fidelity) or Hilltop Securities Inc. (Hilltop) and to direct the firm to place trades through Fidelity, an unaffiliated FINRA member broker dealer or Hilltop. Phillips Ray Capital Management has evaluated Fidelity and Hilltop and believes they will provide our clients with a blend of execution services, commission costs and professionalism that will assist Phillips Ray Capital Management in meeting its fiduciary obligations to clients.

We reserve the right to decline acceptance of any client account custodied at a firm other than Hilltop or NFS or for which the client directs the use of a broker other than Fidelity if we believe that this choice would hinder our ability to service the account. In directing the use of Fidelity, Hilltop, or any other particular broker dealer, it should be understood that Phillips Ray Capital Management will not have authority to negotiate commissions on a trade-by-trade basis or to necessarily obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to the client and those charged to other clients (who may direct the use of a different broker dealer). Clients should note, while Phillips Ray Capital Management has a reasonable belief that Fidelity and Hilltop are able to obtain best execution and competitive prices, Phillips Ray Capital Management will abide by the client's brokerage instructions and will not be independently seeking best execution price capability through other broker dealers on a trade-by-trade basis.

Clients should note that Phillips Ray Capital Management participates in Fidelity's platform services offered to independent investment advisers by Fidelity. As part of these services, Phillips Ray Capital Management receives benefits that it would not receive if it did not offer investment advice to clients.

Phillips Ray Capital Management will block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block. Block trading allows Phillips Ray Capital Management to execute equity trades in a timelier, more equitable manner and to reduce overall commission charges to clients.

Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. Phillips Ray Capital Management will typically aggregate trades among clients whose accounts can be traded at a given broker, and, if any client has directed the use of a broker other than Fidelity, we will rotate or vary the order of brokers through which it places trades for clients on any particular day. Phillips Ray Capital Management's block trading policy and procedures are as follows:

- 1) Phillips Ray Capital Management's policies for the aggregation of transactions shall be fully disclosed in this Form ADV;
- 2) Phillips Ray Capital Management will not aggregate transactions unless it believes that aggregation is consistent with its duty to seek best execution (which includes the duty to seek best price) for its clients and is consistent with the terms of Phillips Ray Capital Management's investment advisory agreement with each client for which trades are being aggregated;
- 3) No advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all Phillips Ray Capital Management's transactions in a given security on a given business day. Depending on the

client's agreement with the custodian/broker, transaction costs will either be shared pro-rata based on each client's participation in the transaction or be based on the number of shares traded for each client;

- 4) Phillips Ray Capital Management will prepare, before entering an aggregated order, a written statement ('Allocation Statement') specifying the participating client accounts and how it intends to allocate the order among those clients;
- 5) If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement; if the order is partially filled, it will be allocated pro-rata based on the Allocation Statement.
- 6) Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment and the reason for different allocation is explained in writing and is approved by Phillips Ray Capital Management's compliance officer no later than one hour after the opening of the markets on the trading day following the day the order was executed;
- 7) Phillips Ray Capital Management's books and records will separately reflect, for each client account, the orders of which are aggregated, the securities held by, and bought and sold for that account;
- 8) Funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the clients' cash nor their securities will be held collectively any longer than is necessary to settle the purchase or sale in question on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement;
- 9) Phillips Ray Capital Management will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation; and
- 10) Individual advice and treatment will be accorded to each advisory client and no client or account will be favored over another.

Through Fidelity's platform, Fidelity and NFS provide Phillips Ray Capital Management with a number of benefits including, among other things, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like Phillips Ray Capital Management in conducting business and in serving the best interests of our clients.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables Phillips Ray Capital Management to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers. As part of the platform services arrangement, Fidelity also makes available to our firm, at no additional charge to us, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by Phillips Ray Capital Management (within specified parameters). These research and brokerage services presently include services such as *Fidelity Insight & Outlook*, which includes market and industry analysis and outlook information and conference calls. These services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, we might be compelled to purchase the same or similar services at our own expense.

As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of Fidelity's services. We examined this potential conflict of interest when we chose to enter into the relationship with Fidelity and have determined that the relationship is in the best interests of Phillips Ray Capital Management's clients and satisfies our client obligations, including our duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received.

## Item 13    Review of Accounts

### PORTFOLIO MANAGEMENT SERVICES

**REVIEWS:** While the underlying securities within Individual Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by the officer of the Firm.

**REPORTS:** In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer, we provide quarterly reports summarizing account performance, activity, balances and holdings.

### CONSULTING SERVICES

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for. Such reviews will be conducted by the client's account representative.

**REPORTS:** Consulting Services clients will not typically receive reports due to the nature of the service.



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

Our firm may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (our Firm Brochure) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

It is Phillips Ray Capital Management's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

**Item 15 Custody**

We previously disclosed in the “Fees and Compensation” section (Item 5) of this Brochure that our firm may directly debit advisory fees from client accounts.

As part of this billing process, 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.

Our firm does not have actual or constructive custody of client accounts.

**Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell.

Clients give us discretionary authority when they sign a discretionary agreement with our firm and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

**Item 17    Voting Client Securities**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, 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 type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide clients with consulting assistance regarding proxy issues if they contact us with questions at our principal place of business.

**Item 18 Financial Information**

Phillips Ray Capital Management has no additional no financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Phillips Ray Capital Management has not been the subject of a bankruptcy petition at any time during the past ten years.