



# SMI ADVISORY SERVICES

## **Form ADV Part 2A Appendix 1: Wrap Fee Program Brochure Item 1 – Cover Page**

SMI Advisory Services, LLC  
4400 Ray Boll Blvd.  
Columbus, IN 47203  
[www.SMIPrivateClient.com](http://www.SMIPrivateClient.com)

### **SMI Private Client – Wrap Fee Program**

The date of this brochure is March 21, 2024

This wrap fee program brochure (“Wrap Brochure”) provides information about the qualifications and business practices of SMI Advisory Services, LLC (“SMI”), a registered investment adviser. Registration does not imply a certain level of skill or training but only indicates that SMI has registered its business with state and federal regulatory authorities, including the United States Securities and Exchange Commission (our SEC number is 801-64882). 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.

If you have any questions about the contents of this Wrap Brochure, please contact us at 800-796-4975 or [support@SMIPrivateClient.com](mailto:support@SMIPrivateClient.com). Additional information about SMI is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes. In this disclosure brochure references to TD Ameritrade have been removed and enhanced language regarding the Dynamic Asset Allocation strategy has been added.

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## Item 4 – Services, Fees and Compensation

### ***SMI Private Client – Wrap Fee Program***

SMI offers a proprietary investment service based on investment strategies that originated in the Sound Mind Investing newsletter, which is an affiliate of SMI, due to the ownership interests of Austin Pryor and Mark Biller (see Item 9, below). The Sound Mind Investing newsletter was designed for do-it-yourself investors.

The SMI Separately Managed Accounts (or Privately Managed Accounts “PMA(s)”) also provide Clients with a way to have the SMI strategies implemented for them, but compared to the SMI Family of mutual funds, PMAs provide the Client with greater flexibility to tailor their portfolio to the ratio of the SMI strategies that the Client chooses. Once the risk assessment is completed and the strategy allocations are selected by the Client, SMI manages each Client’s portfolio according to those chosen strategy allocations. The SMI Private Client Wrap Fee Program is offered to all SMI Private Client accounts.

We encourage visiting our website [www.SMIPrivateClient.com](http://www.SMIPrivateClient.com) for additional information.

### ***Tailored Advisory Services***

To provide its advisory services SMI collects information from each PMA Client, including specific information about their investing profile such as financial situation, investment experience, and investment objectives. SMI maintains this information in strict confidence subject to its Privacy Policy. When implementing its investment solutions, SMI relies upon the information received from a Client. Although SMI contacts its Clients periodically as described further in Item 9 below, a Client must promptly notify SMI of any change in their financial situation or investment objectives that might require a review or revision of their portfolio.

SMI typically receives discretionary authority from the client at the outset of an advisory relationship (via the investment advisory agreement) to select, purchase and sell securities for the client’s account. This discretion includes the authority to place securities transactions without prior consent from you. SMI’s service includes preselected securities for each strategy the Client selects. SMI does not allow Clients to select their own securities, instead the Client selects their strategies and SMI selects the corresponding securities.

SMI will observe limitations and/or restrictions placed by the Client on managing the account. Clients may discuss imposing reasonable restrictions on their account, but must understand that it may preclude them from participating in a particular strategy or model.

### ***Advisory Fees***

Our wrap fee program allows you to pay a single fee that covers advisory services, trade execution, custody and other standard brokerage services. The fee based on the net market value of a Client’s Account. SMI reserves the right, in its sole discretion, to negotiate, reduce, change or waive the advisory fee for certain Client Accounts for any period of time determined by SMI. In addition, SMI may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients.

***Schwab’s Brokerage Services*** In addition to the advisory services, the wrap fee program includes certain brokerage services of Charles Schwab & Co., Inc. (“Schwab”) a broker-dealer registered with the Securities and Exchange Commission and a member of FINRA and SIPC. We are independently owned and operated and not affiliated with Schwab. Schwab will act solely as a broker-dealer and not as an investment advisor to you. It will have no discretion over your account and will act solely on instructions it receives from us (or

you). Schwab has no responsibility for our services and undertakes no duty to you to monitor our management of your account or other services we provide to you. Schwab will hold your assets in a brokerage account and buy and sell securities and execute other transactions when we (or you) instruct them to do so. We do not open the account for you, but we do assist in that process.

You should note that the same (or similar) services as those described above may be available from other sources at a lower cost to you. Depending upon the level of the wrap fee charges, the amount of portfolio activity in your account, the value of services that are provided, and other factors, a wrap fee may exceed the aggregate cost of services if they were to be provided separately. Generally, wrap programs are relatively less expensive for actively traded accounts. However, a non-wrapped pricing arrangement can be more cost effective for accounts that do not experience frequent trading activity.

**Fees for Wrap Program** We charge a single asset-based fee for services covered by the wrap program. The maximum fee charged for the program is set forth below.

**Fees We Pay Schwab** In addition to compensating SMI for advisory services, the wrap fee you pay us allows us to pay for brokerage and execution services provided by Schwab.

- When accounts are established as “Transaction Based Pricing”, SMI pays Schwab transaction costs for each executed trade in wrap fee accounts. However, we do not charge our clients higher advisory fees based on their trading activity, but you should be aware that we have an incentive to limit our trading in your account(s) because we are charged for executed trades.
- When accounts are established as “Asset Based Pricing”, SMI pays Schwab a single asset-based fee in lieu of transaction-based commissions. The fees we pay Schwab are assessed on certain assets in your account(s) at Schwab. We have a conflict of interest because we have a financial incentive to maximize our compensation by seeking to reduce or minimize the total costs incurred in your account(s) subject to a wrap fee.

#### SMI Private Client – Wrap Fee Program

<u>Program</u>	<u>Client Assets</u>	<u>Annual Fee</u>	<u>Transaction Costs</u>
SMI Private Client - Classic	\$50,000 - \$249,999	1.00%	Included*
SMI Private Client - Select	\$250,000 - \$999,999	0.95%	Included*
SMI Private Client - Premier	\$1,000,000 and above	0.85%	Included*

\*Clients will pay any transaction charges incurred by the Held Away Account(s).

**Relative Cost of Wrap Fee Program** A wrap fee is not based directly on the number of transactions in your account. Various factors influence the relative cost of our wrap fee program to you, including the cost of our investment advice, custody and brokerage services if you purchased them separately, the types of investments held in your account, and the frequency, type and size of trades in your account. The program could cost you more or less than purchasing our investment advice and custody/brokerage services separately.

**Fees and Costs Not Included** Our wrap fee covers our advisory services and the brokerage services provided by Schwab [including custody of assets, equity trades, ETFs, and agency transactions in fixed income securities]. As a result, we have an incentive to execute transactions for your account at Schwab.

Our wrap fee does not cover all fees and costs. The fees not included in the wrap fee include charges imposed directly by a mutual fund, index fund, or exchange traded fund which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses), mark-ups and mark-downs, spreads paid to market makers, fees (such as a commission or markup) for trades executed away from [Schwab/Custodian] at another broker-dealer, wire transfer fees and other fees and taxes on brokerage accounts and securities transactions.

SMI may have the ability, through arrangements between SMI and third parties, to advise or manage Client's 401(k), 403(b), 529, Donor Advised Fund and/or health savings account(s) held at financial institutions other than Custodian where SMI cannot directly access such accounts (hereafter and collectively, "Held Away Accounts").

Fees will be calculated monthly, based on the average daily value of the Account(s) or Held Away Account(s) assets (securities, cash and cash equivalents) under management as valued by the Custodian, when available, or otherwise in good faith, and paid monthly. The monthly fee is determined by multiplying the month's average daily value by the annual management fee divided by 12.

Since the advisory fee is applied to the Account(s) or Held Away Account(s) month's average daily balance under management, and since some of days in the first month may have no assets under management, the **Initial Advisory Fee** is appropriately pro-rated, and it is due at the end of the month in which this Agreement was executed. Subsequent Advisory Fees will be assessed at the end of each month and paid on or around the first business day of the following month. Additional deposits of funds and/or securities will be subject to the same billing procedures. This includes deposits of stocks, bonds, mutual funds, and any other securities approved by SMI for investment in this type of account.

In the event of termination, the final Advisory Fee for the Account(s) or Held Away Account(s) will be calculated, with appropriate proration, as of the day that SMI receives notification of the termination. In limited circumstances, mutual funds sponsored and managed by SMI (the "SMI Funds") will be invested into the Account. SMI earns fees in connection with the services it provides to the SMI Funds (the "SMI Funds' Internal Expenses"), and such SMI Funds' Internal Expenses will generally be higher than the Advisory Fee. The SMI Mutual Funds will only be implemented into the Account in the following limited circumstances:

- A. The Account is comprised of less than an amount of assets sufficient to support the full implementation of the SMI Strategies, and the Account is subject to an Advisory Fee of 1% per annum; or
- B. Upon the specific direction of Client in writing (e.g., so as to avoid triggering an undue tax obligation or for reasons otherwise in furtherance of SMI's fiduciary duty to Client).

With respect to the limited circumstance described in Paragraph A, above, SMI will offset any SMI Funds' management fees it receives against the 1% PMA Advisory Fee shown above.

With respect to the limited circumstance described in Paragraph B, above, the Advisory Fee will not be charged on the assets that are invested in the SMI Funds.

In the event that SMI uses an ETF managed by SMI in the PMAs, the PMA fee charged on the assets in the ETF will be the normal PMA fee minus the SMI ETF's fee. Example: If a Client's PMA account is normally charged 0.85% and the account has \$100,000 in the SMI ETF, then the \$100,000 would be charged a PMA fee of (0.85% - 0.79%).

For Held Away Accounts, SMI will deduct the applicable Advisory Fee from Client's taxable account, which is advised by SMI and held at a custodian, on a pro rata basis based upon the value of such Held Away Account as reported to SMI by the custodian, recordkeeper or platform provider. If SMI does not advise Client with respect to any taxable account (or if such account is not held at the custodian), SMI will not be able to deduct the Advisory Fee and Client will be responsible for paying the Advisory Fee directly to SMI.

The Schedule of PMA Fees charged by SMI is inclusive of transaction charges that would otherwise be charged to the Client by the custodian of the Account(s). Clients will pay any transaction charges incurred by the Held Away Account(s). Additionally, charges such as margin interest, transfer costs, and custodial fees are not included in the Advisory Fee. Client understands that SMI's investment adviser representatives, in connection with their performance of services, shall be entitled to and may share in the Advisory Fees.

Client may also incur certain charges imposed by third parties other than SMI in connection with investments made through the Account(s) or Held Away Account(s), including but not limited to SEC fees, short-term redemption penalties, no-load mutual fund 12b-1 distribution fees (trail commissions), certain deferred sales charges on previously purchased mutual funds and IRA and Qualified Retirement Plan fees. Advisory Fees do not include certain charges such as 12b-1 fees paid by mutual funds held in Client's Account(s) or Held Away Account(s). The amount of a mutual fund's 12b-1 fees is reflected on the funds' prospectuses and/or financial statements. Notwithstanding the foregoing, no 12b-1 fees will be received by SMI's affiliates with respect to any assets in an Account(s) or Held Away Account(s) of a Client which is an employee benefit plan subject to ERISA or an IRA or other Account(s) subject to the prohibited transaction rules of the Internal Revenue Code ("IRC").

The PMA Fee schedule in effect for Client's Account(s) or Held Away Account(s) shall continue until thirty (30) days after SMI has notified the Client in writing of any change in the amount of the Fees or charges applicable to the Client's Account(s) or Held Away Account(s). At such time the new Fees or charges will become effective unless the Client notifies SMI in writing that the Account(s) or Held Away Account(s) is to be closed.

Client accounts will hold a variety of securities including, but not limited to, shares of investment companies, including open-end and closed-end mutual funds, exchange-traded funds ("ETFs"), potentially money market funds and cash. Investment companies incur internal expenses and pay advisory fees to their investment advisors, which reduce the net asset value of the funds' shares. Additionally, we charge our clients an advisory fee based on the value of their total portfolio, which may include investment company holdings. Therefore to the extent a client's account is invested in investment companies, the client may pay two levels of advisory fees for the management of the client's assets, both directly to SMI and indirectly through the management fees assessed by the investment companies in the client's account. We do intend to invest in such securities because they are an integral part of the strategies and in our judgment, the potential benefits of such underlying investments justify the payment of any associated fees and expenses. Complete details of these internal fees and expenses are explained in the prospectus for each investment. You are strongly encouraged to read these documents before making or authorizing any investments. We are available to answer any questions you have about fees and expenses.

### ***Other Account Fees***

SMI is a “fee only” investment advisor, and other than its advisory fees described above, neither the firm nor its employees receive or accept any direct or indirect compensation related to investments that are purchased or sold for Client Accounts. This means that Clients will not be sold products or services that create additional fees or compensation to benefit SMI or its employees or its affiliates other than those described in this Brochure.

In addition to SMI’s fees (described previously), clients will also incur in the course of SMI’s investment management of their account(s):

- Costs associated with securities transactions, such as brokerage commissions, mark-ups, mark-downs, odd-lot differentials, SEC fees, short-term redemption penalties and other transaction costs;
- transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions; and
- Fees charged by brokers, banks or other qualified custodians for custody services.

Client accounts that purchase securities issued by investment companies, including open-end and closed-end mutual funds, exchange-traded funds (“ETFs”) and money market funds, may incur sales charges or service fees to third parties in connection with such purchases, including deferred sales charges. Further, such investment companies may also charge internal management fees, which are disclosed in the applicable fund’s prospectus.

These third-party fees and costs are in addition to SMI’s fees. SMI does not receive any portion of these fees and costs. Item 12 further describes the factors that SMI considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

## **Item 5 – Account Requirements and Types of Clients**

SMI generally provides investment advice to individuals and investment companies.

A Client should have a minimum of at least \$50,000 to establish a PMA under the SMI Private Client Program. The Client must also acknowledge their ability and willingness to conduct their relationship with SMI on an electronic basis. Under the terms of the Account Agreement, each Client agrees to receive all Account information and Account documents (including this Brochure), and any updates or changes to same, through their access to the Site and SMI’s electronic communications. Unless noted otherwise on the Site or within this Brochure, SMI’s advisory service, the signature for the Account Agreement, and all documentation related to the advisory services are managed electronically. SMI does make individual representatives available to discuss servicing matters with Clients.

Investors with specific restrictions are not permitted to become Clients.

SMI provides educational information related to the services provided and does not offer recommendations regarding the decision to move accounts to SMI’s management. Clients with retirement Account(s) must acknowledge SMI representatives did not provide any recommendations regarding whether Client should roll over or transfer their retirement Account(s) to SMI for management.



## **Item 6 – Portfolio Manager Selection and Evaluation**

Certain of our advisory representatives act as portfolio managers for this wrap program. Information about the individual managing your account may be found in the brochure supplement provided with this disclosure brochure. SMI does not recommend or select outside managers.

### ***Other Advisory Business***

SMI provides the following services in addition to those described above under “Services, Fees and Compensation”. Please contact your advisory representative if you are interested in receiving the disclosure brochures that describe these services and their associated fees in greater detail.

The SMI Funds exist to automate, and potentially improve upon, Sound Mind Investing strategies that investors might find difficult and time-consuming to implement on their own. Shareholders purchase the SMI Fund(s) they deem appropriate for their particular situation based on the prospectus-stated strategy of each of the SMI Fund(s).

Compared to the SMI Family of mutual funds, Separately Managed Accounts (or Privately Managed Accounts “PMA(s)”) provide the Client who has at least \$50,000 to invest with greater flexibility to tailor their portfolio to the ratio of the SMI strategies that the Client chooses. Once the risk assessment is completed and strategy allocations are selected by the Client, SMI manages each Client’s portfolio according to those chosen strategies.

When trades are being placed in both SMI Fund and PMA accounts on the same day, a fixed rotation schedule is used to determine which trades are placed first. This is done prevent preferential treatment of one Client over another.

### ***Performance-Based Fees***

Performance-based fees are designed to give a portion of the returns of an investment to the investment adviser as a reward for positive performance. The fee is generally a percentage of the profits made on the investments. We do not charge performance-based fees on any of our client accounts.

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

The following is a list of the strategies (and their corresponding methods of analysis) used by SMI.

#### **Strategy #1 - Sector Rotation:**

This strategy typically invests in a small number of special-purpose stock funds (and ETFs) that focus on a specific sector, like biotech or financial services. These funds may use leverage. These funds are identified by SMI’s quantitative analysis techniques. Sector Rotation is usually considered a high-risk, but potentially high-reward strategy. While its peaks and valleys are expected to be higher and lower than the other SMI strategies, Sector Rotation’s goal is to generate impressive long-term returns. Both SMI PMAs and SMI Funds will typically achieve exposure to this strategy by owning between 5 and 10 stock funds or ETFs at a time.

#### **Strategy #2 - Stock Upgrading:**

Stock Upgrading is a “momentum” strategy built on the idea that recent performance tends to persist.

Stock Upgrading attempts to own the best-performing stock mutual funds and ETFs, regardless of what the current market environment may be. The Stock Upgrading strategy has been a principal investment strategy

recommendation of the Sound Mind Investing newsletter, a separate entity, to thousands of subscribers since it began publication in 1990. The PMAs also include the use of individual stocks in Stock Upgrading.

In this strategy we continually monitor and rank thousands of mutual funds in order to determine those which have been performing the best recently. We purchase those funds showing superior performance relative to their peer group, and hold them until they stop outperforming. When that occurs, those lagging funds are sold and replaced with other funds showing stronger recent performance.

Stock Upgrading is based on research indicating that, as economic conditions change, market leadership rotates among companies of different sizes, and among different investment approaches.

While market conditions are constantly changing, fund managers rarely change their approach. Managers that excel under one set of market conditions are often only average (or worse) under a different set of conditions. Rather than buy a fund and hold it through both the periods that favor the manager's approach and the periods that don't, Stock Upgrading attempts to seek out and buy those funds that are excelling right now. We make no attempt to predict which funds will lead the market in the future. Instead, Stock Upgrading helps us to gradually move into funds that reflect the market's continually evolving leadership. While most investment approaches focus on long-term performance as the key to determining which mutual funds will succeed in the future, we believe the opposite is true. Research has shown that funds exhibiting superior performance in recent months tend to continue to perform well in the following months. As a result, we focus only on returns over the past 12 months in determining which funds are the best candidates for ownership. This approach to selecting new funds, coupled with a strong discipline to replace lagging funds, is the key to the Upgrading strategy. The Stock Upgrading strategy typically invests in underlying funds as follows (however, the allocations are fluid based on momentum):

- Approximately 40% in Large-Cap Funds / ETFs
- Approximately 40% in Small to Mid-Cap Funds / ETFs
- A portion may also be invested in International Funds / ETFs and/or commodities, depending on the recent momentum of these groups.

This approach makes a wide range of investment opportunities available since the strategy can own a mixture of foreign and domestic, value and growth, and commodity focused investments at any given time. Note that the "2.0" update to the Upgrading strategy enables the managers to shift part of (up to all of) the Upgrading portfolio to cash.

### **Strategy #3 – Large Cap, Small Cap and International Indexing (Just the Basics):**

This is our simplest equity strategy, where portfolio changes are made just once a year. The strategy uses index funds / ETFs to proxy the stock markets, via Client-selected exposure to Large Cap, Small Cap and International index funds / ETFs. Because funds are not bought or sold throughout the year, this Just-the-Basics equity strategy can be especially well suited for use in taxable accounts. Professional management of this strategy is only available to SMI Clients via PMAs.

### **Strategy #4 - Dynamic Asset Allocation:**

#### **SMI FUNDS:**

Dynamic Asset Allocation (DAA) strives to capitalize on the fact that economic conditions change over time. The economy unpredictably cycles through extremes of prosperity, recession, inflation and deflation. During each of these economic phases, certain assets tend to perform well, while other assets do not. The goal of DAA is to invest in the asset classes that are best suited for the current economic environment and (possibly

more importantly) to not be invested in the asset classes that are poorly suited for the current economic environment.

The SMI Funds using this strategy will use exchange-traded funds to rotate among six asset classes, owning three asset classes at any one time. The six asset classes are:

- US Stock Market
- International Stock Market
- Bonds
- Real Estate
- Precious Metals (Typically Gold)
- Cash

**The SMI PMAs use an Enhanced version of DAA (EDAA):**

Enhanced Dynamic Asset Allocation (EDAA) strives to capitalize on the fact that economic conditions change over time. The economy unpredictably cycles through extremes of prosperity, recession, inflation and deflation. During each of these economic phases, certain assets tend to perform well, while other assets do not. The goal of EDAA is to increase exposure to the asset classes that are best suited for the current economic environment and (possibly more importantly) to reduce exposure to the asset classes that are poorly suited for the current economic environment, while usually maintaining some exposure to all of them.

The SMI PMAs and any SMI Funds using this strategy will use exchange-traded funds to obtain exposure to the six asset classes (often owning more than one security per asset class). This investment strategy involves active trading, which may result in a high portfolio turnover rate. The six asset classes are:

- US Equities
- International Equities
- Fixed Income
- Alternative Investments
- Commodities/Other
- Cash

**Strategy #5 - Bond Upgrading:**

As with Stock Upgrading, Bond Upgrading is a “momentum” strategy built on the idea that recent performance tends to persist.

Bond Upgrading attempts to gain exposure to the best-performing bond types and bond durations, by applying special momentum techniques both within and across bond categories.

SMI PMAs using this strategy will typically allocate approximately half of the Client’s bond portfolio to less dynamic "core holdings," where the focus is stability and safety. The other half of the bond portfolio will use Bond Upgrading, which uses momentum based performance indicators of the various bond categories to identify which categories may currently present the best investment opportunities.

**Strategy #6 - Bond Indexing (Just the Basics):**

This is our simplest bond strategy, where bond index ETFs are used to proxy the US bond market. Professional management of this strategy is only available to SMI Clients via PMAs.

## **Risks of Loss**

**Investing in securities involves risk of loss that clients should be prepared to bear.**

All investments involve risks that can result in loss:

- Loss of principal;
- A reduction in earnings (including interest, dividends and other distributions); and
- The loss of future earnings.

Additionally, these risks may include:

**Market Risk.** The prices of securities held may decline in response to certain events taking place around the world, including conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations.

**Management Risk.** The Advisor's investment approach may fail to produce the intended results. If the Advisor's perception of an Underlying Fund's value is not realized in the expected time frame, performance may suffer.

**Other Investment Company Securities Risks.** When SMI invests in another mutual fund or an ETF (Underlying Funds), SMI will bear its proportionate share of any fees and expenses payable directly by the Underlying Fund. SMI may be affected by losses of the Underlying Funds and the level of risk arising from the investment practices of the Underlying Funds (such as the use of derivative transactions by the Underlying Funds). SMI has no control over the investments and related risks taken by the Underlying Funds in which it invests. In addition to risks generally associated with investments in investment company securities, ETFs are subject to the following risks that do not apply to traditional mutual funds: (i) an ETF's shares may trade at a market price that is above or below their net asset value; (ii) an active trading market for an ETF's shares may not develop or be maintained; (iii) the ETF may employ an investment strategy that utilizes high leverage ratios; or (iv) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally.

**Style Risk.** SMI may invest in Underlying Funds that use growth- and/or value- oriented investing styles, or other styles. If the Underlying Fund's portfolio manager incorrectly assesses the growth potential of companies in which the fund invests, the securities purchased may not perform as expected, reducing the Underlying Fund's return. With respect to Underlying Funds with a value investing approach, the market may not agree with a value manager's determination that the fund's portfolio stocks are undervalued, and the prices of such portfolio securities may not increase to what the adviser believes are their full value. They may even decrease in value.

**Small- and Mid-Cap Risk.** To the extent investments are made in investment companies that invest in small- and mid-cap companies, the investments will be subject to additional risks. Smaller companies may experience greater volatility, higher failure rates, more limited markets, product lines, financial resources, and less management experience than larger companies. Smaller companies may also have a lower trading volume, which may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies.

**Volatility Risk.** Equity securities tend to be more volatile than other investment choices. The value of an individual Underlying Fund can be more volatile than the market as a whole.

**Portfolio Turnover Risk.** Some of SMI's investment strategies involve active trading and will result in a high portfolio turnover rate. A high portfolio turnover can result in correspondingly greater brokerage commission expenses. A high portfolio turnover may result in the distribution to shareholders of additional capital gains for tax purposes, some of which may be taxable at ordinary income rates. These factors may negatively affect performance.

**Foreign Securities Risk.** Underlying Funds may invest in foreign securities. Foreign securities are subject to additional risks not typically associated with investments in domestic securities. These risks may include, among others, currency risk, country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability, currency devaluations and policies that have the effect of limiting or restricting foreign investment or the movement of assets), different trading practices, less government supervision, less publicly available information, limited trading markets and greater volatility. To the extent that Underlying Funds invest in issuers located in emerging markets, the risk may be heightened by political changes, changes in taxation, or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.

**Fixed Income Securities Risk.** Underlying Funds may invest in fixed income securities, including high-yield debt securities (junk bonds), which are subject to a number of risks. For example, the issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation. If a rating agency gives a debt security a lower rating, the value of the debt security will decline because investors will demand a higher rate of return. As nominal interest rates rise, the value of fixed income securities held is likely to decrease. A nominal interest rate is the sum of a real interest rate and an expected inflation rate.

Credit Risk. The issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation.

Change in Rating Risk. If a rating agency gives a debt security a lower rating, the value of the debt security will decline because investors will demand a higher rate of return.

Interest Rate Risk. The value of the securities may fluctuate based upon changes in interest rates and market conditions. As interest rates increase, the value of the securities' income-producing investments may go down. For example, bonds tend to decrease in value when interest rates rise. Debt obligations with longer maturities typically offer higher yields, but are subject to greater price movements as a result of interest rate changes than debt obligations with shorter maturities.

Duration Risk. Prices of fixed income securities with longer effective maturities are more sensitive to interest rate changes than those with shorter effective maturities.

Prepayment Risk. Mortgage- and asset-backed securities are subject to fluctuations in yield due to prepayment rates that may be faster or slower than expected.

Income Risk. Income could decline due to falling market interest rates. In a falling interest rate environment, SMI may be required to invest its assets in lower-yielding securities. Because interest rates vary, it is impossible to predict the income or yield for any particular period.

***High-Yield Securities (“Junk Bond”) Risk.*** Underlying Funds that invest in high-yield securities and unrated securities of similar credit quality (commonly known as “junk bonds”) may be subject to greater levels of interest rate and credit risk than funds that do not invest in such securities. Junk bonds are considered predominately speculative with respect to the issuer’s continuing ability to make principal and interest payments. An economic downturn or period of rising interest rates could adversely affect the market for these securities and reduce the Underlying Fund’s ability to sell these securities (liquidity risk). If the issuer of a security is in default with respect to interest or principal payments, an investor may lose their entire investment.

***Industry or Sector Focus Risk.*** Underlying Funds that focus their investments in a particular industry or sector may be more volatile and fluctuate more than a fund investing in a broader range of securities.

***Derivatives Risk.*** Underlying Funds may use derivative instruments such as put and call options on stocks and stock indices, index futures contracts and options thereon, and currency forwards. There is no guarantee such strategies will work.

The value of derivatives may rise or fall more rapidly than other investments. For some derivatives, it is possible to lose more than the amount invested in the derivative. Other risks of investments in derivatives include imperfect correlation between the value of these instruments and the underlying assets; risks of default by the other party to the derivative transactions; risks that the transactions may result in losses that offset gains in portfolio positions; and risks that the derivative transactions may not be liquid.

While futures contracts are generally liquid instruments, under certain market conditions they may become illiquid. As a result, the Underlying Fund may not be able to close out a position in a futures contract at a time that is advantageous. The price of futures can be highly volatile; using them could lower total return, and the potential loss from futures can exceed the Underlying Fund’s initial investment in such contracts. The Underlying Fund’s use of derivatives may magnify its losses.

Successful use by an Underlying Fund of options on stock indices, index futures contracts (and options thereon) will be subject to its ability to correctly predict movements in the direction of the securities generally or of a particular market segment. In addition, Underlying Funds will pay commissions and other costs in connection with such investments, which may increase the expenses and reduce the return. In utilizing certain derivatives, an Underlying Fund’s losses are potentially unlimited. Derivative instruments may also involve the risk that other parties to the derivative contract may fail to meet their obligations, which could cause losses.

Underlying Funds may use derivatives to seek to manage the risks described below.

Interest rate risk. This is the risk that the market value of bonds owned by the Underlying Funds will fluctuate as interest rates go up and down.

Yield curve risk. This is the risk that there is an adverse shift in market interest rates of fixed income investments held by the Underlying Funds. The risk is associated with either flattening or steepening of the yield curve, which is a result of changing yields among comparable bonds with different maturities. If

the yield curve flattens, then the yield spread between long- and short-term interest rates narrows and the price of a bond will change. If the curve steepens, then the spread between the long- and short-term interest rates increases which means long-term bond prices decrease relative to short-term bond prices.

Prepayment risk. This is the risk that the issuers of bonds owned by the Underlying Funds will prepay them at a time when interest rates have declined, and any proceeds may have to be invested in bonds with lower interest rates, which can reduce the returns.

Liquidity risk. This is the risk that assets held may not be liquid.

Credit risk. This is the risk that an issuer of a bond held by the Underlying Funds may default.

Market risk. This is the risk that the value of a security or portfolio of securities will change in value due to a change in general market sentiment or market expectations.

Inflation risk. This is the risk that the value of assets or income will decrease as inflation shrinks the purchasing power of a particular currency.

**Non-Diversification Risk.** Underlying Funds may be non-diversified under the 1940 Act. This means that there is no restriction under the 1940 Act on how much the Underlying Fund may invest in the securities of a single issuer. Therefore, the value of the Underlying Fund's shares may be volatile and fluctuate more than shares of a diversified fund that invests in a broader range of securities.

**Commodity Risk.** Underlying Funds and other instruments may invest directly or indirectly in any physical commodities, including but not limited to, gold, silver, and other precious materials. Commodity prices can move significantly in short periods of time and can be affected by new discoveries or changes in government regulation. Income derived from investments in Underlying Funds that invest in commodities may not be qualifying income for purposes of the "regulated investment company" ("RIC") tax qualification tests.

Furthermore, in September 2016, the Internal Revenue Service ("IRS") announced that it will no longer issue private letter rulings on questions relating to the treatment of a corporation as a RIC that require a determination of whether a financial instrument or position, such as a commodity-linked or structured note, is a security under section 2(a)(36) of the 1940 Act. (A financial instrument or position that constitutes a security under section 2(a)(36) of the 1940 Act generates qualifying income for a corporation taxed as a regulated investment company.) This caused the IRS to revoke the portion of any rulings that required such a determination, some of which were revoked retroactively and others of which were revoked prospectively as of a date agreed upon with the IRS. Should the IRS issue further guidance, or Congress enact legislation, that adversely affects the tax treatment of the Underlying Fund's use of commodity-linked notes (which guidance might be applied retroactively).

**RIC Qualification Risk.** To qualify for treatment as a "regulated investment company" ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code"), the Fund must meet certain income source, asset diversification and annual distribution requirements. Among other means of not satisfying the qualifications to be treated as a RIC, the investment in certain ETFs or publicly traded partnerships ("PTPs") and passive foreign investment companies ("PFICs") that invest in or hold physical commodities could cause the SMI Funds to fail the income source component of the RIC requirements. If, in any year, an SMI Fund failed to qualify as a RIC for any reason and does not use a "cure" provision, the SMI Fund would be taxed as an ordinary corporation (i.e., a C corporation) and would become (or remain) subject to corporate



income tax. The resulting corporate taxes could substantially reduce the SMI Funds' net assets, the amount of income available for distribution and the amount of distributions.

**Publicly Traded Partnership Risk.** Publicly traded partnerships ("PTPs") are partnerships that may be publicly traded on the New York Stock Exchange ("NYSE") and NASDAQ. They often own businesses or properties relating to energy, natural resources or real estate. They are generally operated under the supervision of one or more managing partners or members. State law may offer fewer protections from enterprise liability to investors in a partnership compared to investors in a corporation. Distribution and management fees may be substantial. Losses are generally considered passive and cannot offset income other than income or gains relating to the same entity. These tax consequences may differ for different types of entities because PTPs can be taxed as partnerships or corporations. Many PTPs may operate in certain limited sectors such as, without limitation, energy, natural resources, and real estate, which may be volatile or subject to periodic downturns. Growth may be limited because most cash is paid out to unit holders rather than retained to finance growth. The performance of PTPs may be partly tied to interest rates. Rising interest rates, a poor economy, or weak cash flows are among the factors that can pose significant risks for investments in PTPs. Investments in PTPs also may be relatively illiquid at times.

**Market Timing Risk.** Because SMI does not consider Underlying Funds' policies and procedures with respect to market timing, performance of the Underlying Funds may be diluted due to market timing and therefore may affect performance.

**Cybersecurity Risk.** SMI and its service providers may be subject to operational and information security risks resulting from breaches in cybersecurity that may cause SMI to lose or compromise confidential information, suffer data corruption or lose operational capacity. Similar types of cybersecurity risks are also present for issuers of securities in which SMI may invest, which may cause the investments in such companies to lose value. There is no guarantee SMI will be successful in protecting against cybersecurity breaches.

**Inverse and Leveraged ETF Risks.** Inverse ETFs will decrease in value when the index underlying the ETF's benchmark rises, a result that is the opposite from traditional equity or bond funds. The net asset value and market price of leveraged or inverse ETFs are usually more volatile than the value of the tracked index or of other ETFs that do not use leverage. Inverse and leveraged ETFs use investment techniques and financial instruments that may be considered aggressive, including the use of derivative transactions and short selling techniques. Most inverse and leveraged ETFs are designed to achieve their stated objectives on a daily basis. Their performance over long periods of time can differ significantly from the performance or inverse of the performance of the underlying index during the same period of time. This effect can be magnified in volatile markets.

**Real Estate Risk.** Underlying Funds may invest in real estate securities. Real estate securities are susceptible to the many risks associated with the direct ownership of real estate, including declines in property values, increases in property taxes, operating expenses, interest rates or competition, overbuilding, changes in zoning laws, or losses from casualty or condemnation. REITs are pooled investment vehicles which invest primarily in income producing real estate or real estate related loans or interests. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also realize capital gains by selling property that has appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive income from the collection of interest payments. Similar to investment companies, REITs are not taxed on income distributed to shareholders provided they comply with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code").



**Credit Default Swaps Product Risk.** Underlying Funds that invest in credit default swaps and related instruments, such as credit default swap index products, may be subject to greater risks than if an investment was made directly in the reference obligation. These instruments are subject to general market risks, liquidity risks and credit risks, and may result in a loss of value. The credit default swap market may be subject to additional regulations in the future.

**Mortgage-Backed and Asset-Backed Securities Risk.** Underlying Funds that invest in these securities, may be subject to movements in interest rates which may quickly and significantly reduce the value of certain types of mortgage- and asset-backed securities. Mortgage- and asset-backed securities can also be subject to the risk of default on the underlying mortgages and other assets and prepayment risk.

**Ratings Agencies Risk.** Ratings agencies assign ratings to securities based on that agency's opinion of the quality of debt securities. Ratings are not absolute standards of quality, do not reflect an evaluation of market risk, and do not necessarily correlate with yield.

**Liquidity Risk.** In certain situations, it may be difficult or impossible to sell an investment in an orderly fashion at an acceptable price.

**Cash Risk.** From time to time, a substantial cash position may be held. If the market advances during these periods the portfolio may not participate as much as it would have if it had been more fully invested, and may not achieve its investment objective. When a money market fund is used for its cash position, there will be some duplication of expenses because of the money market fund's advisory fees and operational expenses.

We manage each portfolio in a manner consistent with its appropriate level of risk, though SMI cannot guarantee any level of performance or that any Client will avoid a loss of Account assets. Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear. When evaluating risk, financial loss may be viewed differently by each Client and may depend on many different risk items, each of which may affect the probability of adverse consequences and the magnitude of any potential losses. The above risks may not be all-inclusive, but should be considered carefully by a prospective Client before retaining SMI's services. These risks should be considered as possibilities, with additional regard to their actual probability of occurring and the effect on a Client if there is in fact an occurrence.

### ***Voting Client Securities***

In the SMI family of mutual funds, SMI as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Our firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm's proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making information available about the voting of proxies for their portfolio securities and maintaining relevant and required records.

SMI does not take any action or render any advice with respect to voting of proxies solicited by or with respect to the issuers of securities in which assets of PMAs may be invested. In addition, we do not render any advice or take any action on your behalf with respect to securities or other investments held in the account, or the issuers thereof, which become the subject of any legal proceedings, including those under the Federal bankruptcy laws. SMI arranges with your custodian for you to receive proxy materials and other notices concerning securities in your account.

## **Item 7 – Client Information Provided to Portfolio Managers**

We work with you to identify your investment goals and objectives as well as risk tolerance in order to create an initial portfolio allocation designed to complement your financial situation and personal circumstances. We obtain this information from you initially, annually, and as you inform us of any changes.

## **Item 8 – Client Contact with Portfolio Managers**

You have ready access to your advisory representative who can schedule a meeting with your portfolio manager. Portfolio managers are not required to be available for unscheduled or unannounced visits or calls by clients.

## **Item 9 – Additional Information**

### ***Disciplinary Information***

Like all registered investment advisors, SMI is obligated to disclose any disciplinary event that might be material to any Client when evaluating our services. We do not have any legal, financial, regulatory, or other “disciplinary” item to report to any Client. This statement applies to our firm and to every employee of our firm.

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

SMI is the investment adviser to the SMI family of mutual funds: Sound Mind Investing Fund (“SMIFX”), SMI Dynamic Allocation Fund (“SMIDX”), SMI Multi-Strategy Fund (“SMILX”), all open-end investment companies and each a Series of Valued Advisors Trust, which is a management investment company established under the laws of Delaware.

SMIFX and SMILX each commenced operations as a separate series (the “Predecessor Funds”) of the Unified Series Trust. On February 28, 2013, each Predecessor Fund was reorganized as a new series of Valued Advisors Trust by an Agreement and Declaration of Trust dated June 13, 2008.

SMI is a joint venture between Omnium Investment Company, LLC, and Marathon Partners, LLC. Omnium Investment Company was formed in 2005 and is owned by Omnium Capital, LLC, whose majority owners are Anthony Ayers, Fred Beerwart and Eric Collier. Marathon Partners was formed in 2005 by Austin Pryor, Mark Biller and the other senior personnel of Sound Mind Investing, a Christian non-denominational financial newsletter. Austin Pryor is the majority owner of Sound Mind Investing, LLC, and Mark Biller serves as Executive Editor of the Sound Mind Investing newsletter and online services. The Sound Mind Investing newsletter was first published in 1990. The newsletter provides investment recommendations to thousands of subscribers using a variety of investment strategies.

Funds in the SMI Family of funds may buy, sell or hold the same securities owned in SMI PMAs.

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

SMI has adopted a Code of Ethics (“Code”) to address the securities-related conduct of our advisory representatives and employees. The Code includes our policies and procedures developed to protect your interests in relation to the following:

- the duty at all times to place your interests ahead of ours;
- all personal securities transactions of our advisory representatives and employees will be conducted

in a manner consistent with the Code and avoid any actual or potential conflict of interest, or any abuse of an advisory representative's or employee's position of trust and responsibility;

- advisory representatives may not take inappropriate advantage of their positions;
- information concerning the identity of your security holdings and financial circumstances are confidential; and
- independence in the investment decision-making process is paramount.

We will provide a copy of the Code to you or any prospective client upon request.

We buy and sell securities for our proprietary accounts that we also recommend to clients. Our advisory representatives and employees are also permitted to buy or sell the same securities for their personal and family accounts that are bought or sold for your account(s). The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is owned by you or considered for purchase or sale for you.

We have adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in your best interest,
- prohibit favoring one client over another, and

Advisory representatives and employees must follow our procedures when purchasing or selling the same securities purchased or sold for you.

### ***Review of Accounts***

Strategies and models are reviewed by the portfolio managers on an ongoing basis. Your accounts are reviewed at least annually for any changes in suitability factors. Accounts are also reviewed upon triggering events such as:

- a change in your financial condition,
- a significant change in the market environment, or
- a request to liquidate and distribute a significant portion of the portfolio.

You will receive statements from your custodian at least quarterly. We recommend that you review these statements carefully. We do not provide additional regular reports.

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

We do not directly or indirectly compensate any person who is not an advisory affiliate of SMI for client referrals. We do, however, receive certain economic benefits as a result of our business arrangements with the custodians and broker-dealer who help us service your accounts.

As described under Item 5.K.(3) of this Form ADV, SMI Advisory Services may require that clients establish brokerage accounts with Charles Schwab & Co., Inc. ("Schwab") and/or its affiliates (e.g. TD Ameritrade Institutional) to maintain custody of the clients' assets and effect trades for their accounts.

***Use of Schwab:*** 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 instruct them to do so. While we request 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. Conflicts of interest associated with this arrangement are described below as well as in Item 14 (Client referrals and other compensation). You should consider these conflicts of interest when selecting your custodian.

We do not open the account for you, although we may assist you in doing so. If you do not wish to place your assets with Schwab, then we cannot manage your account. Not all advisors require their clients to use a particular broker-dealer or other custodian selected by the advisor. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see “Your brokerage and custody costs”).

### ***How we select brokers/custodians***

We seek to use a custodian/broker that will hold your assets and execute transactions. When considering whether the terms that Schwab provides are, overall, most advantageous to you when compared with other available providers and their services, we consider a wide range of factors, including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, security, and stability
- Prior service to us and our clients
- Availability of other products and services that benefit us, as discussed below (see “Products and services available to us from Schwab”)

### ***Your brokerage and trading costs***

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services. Certain trades (for example, many mutual funds, and U.S. exchange-listed equities and ETFs) may not incur Schwab commissions or transaction fees. Schwab is also compensated by earning interest on the uninvested cash in your account in Schwab’s Cash Features Program.

We are not required to select the broker or dealer that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers or dealers. Although we are not required to execute all trade through Schwab, 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 (see “How we select brokers/ custodians”). By using another broker or dealer you may pay lower transaction costs.

### ***Products and services available to us from Schwab***

Schwab Advisor Services™ is Schwab’s business serving independent investment advisory firms like ours. They provide us and our clients with access to their institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. However, certain retail investors may be able to get institutional brokerage services from Schwab without

going through our firm. 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 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 through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

**Services that do not directly benefit you.** Schwab also makes available to us other products and services that benefit us but do not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts and operating our firm. They include investment research, both Schwab's own and that of third parties. We 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 trade confirmations and account 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, record keeping, and client reporting

**Services that generally benefit only 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 and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers
- Marketing consulting and support

Schwab provides some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also discounts or waives its fees for some of these services or pays all or a part of a third party's fees. Schwab also provides us with other benefits, such as occasional business entertainment of our personnel. If you did not maintain your account with Schwab, we would be required to pay for these services from our own resources.

### ***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. We don't have to pay for Schwab's services. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The fact that we receive these benefits from Schwab is an incentive for us to require the use of Schwab rather than making such decision based exclusively on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. We believe, however, that taken in the aggregate, 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 (see "How we select brokers/custodians") and not Schwab's services that benefit only us.

***Financial Information***

SMI has no financial commitment or condition that is reasonably likely to impair its ability to meet its contractual commitments to its clients, SMI has never been the subject of any bankruptcy proceeding.