



AFAM Capital, Inc.
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This Brochure provides information about the qualifications and business practices of AFAM Capital, Inc. If you have any questions about the contents of this Brochure, please contact us at 512-354.7041. 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.

AFAM Capital, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about AFAM Capital, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Item discusses only specific material changes that are made to the Brochure and provides clients with a summary of such changes. Our last update was filed on March 27, 2013. We last filed an update to our Brochure on the same date. Since that update, the firm has made the following changes:

- AFAM has updated the investment strategy with respect to the Country and Sector Rotation portfolios.
- AFAM has updated our trade rotation policy.
- AFAM has engaged a solicitor for institutional client referrals.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other on-going disclosure information about material changes as necessary.

We will further provide you with a new Brochure, as necessary, based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Elizabeth M. Willmore, Chief Compliance Officer, at 512.354.7041, or ewillmore@afamcapital.com. Our Brochure is also available on our web site www.afamcapital.com, also free of charge.

Additional information about AFAM Capital, Inc. is also available via the SEC's web site at www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with AFAM Capital, Inc., who are registered, or are required to be registered, as investment adviser representatives of AFAM Capital, Inc.

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Item 4 – Advisory Business

The following information describes investment advisory services of AFAM Capital, Inc. (“AFAM”) or (“the Firm”) and Al Frank Asset Management and Innealta Capital, divisions of AFAM Capital, Inc.

AFAM is an independently owned SEC-registered investment advisor. The firm was founded in 1977 by noted equity value manager Al Frank (1930-2002). AFAM is headquartered in Austin, Texas.

We manage client accounts through Al Frank Asset Management and Innealta Capital. We also are the investment adviser to certain no-load proprietary mutual funds.

The Al Frank Fund and the Al Frank Dividend Value Fund are value-oriented equity funds. The Innealta Capital Country Rotation Fund and the Innealta Capital Sector Rotation Fund are tactically managed funds that utilize exchange traded funds (ETFs). The Innealta Capital Country Rotation Portfolio and the Innealta Capital Sector Rotation Portfolio utilize the same strategies as the Innealta Funds, but are intended, in part, to be a funding vehicle for variable annuity contracts and flexible premium variable life insurance policies offered by the separate accounts of various insurance companies.

We edit and publish *The Prudent Speculator* investment newsletter.

Al Frank Asset Management manages discretionary accounts (portfolios) by buying, holding and selling stocks in widely diversified portfolios to be held for long-term capital appreciation. We select equity securities that we believe are out of favor and undervalued, and hold them until we believe that the securities have reached a fair value or until our research finds a candidate with more attractive risk/reward attributes or the stock's evolved risk/reward profile fails to justify continued ownership. Stock selection is not limited by size and portfolios may be invested in companies of any market capitalization.

- The Value strategy includes both dividend and non-dividend paying stocks and seeks broad diversification via exposure to a significant number of major market sectors and industry groups. Portfolios are initially constructed with 60 to 80 positions.
- The Dividend Value strategy generally adheres to the same investment philosophy as the Value strategy and primarily invests in dividend paying companies. Given the dividend-emphasis, portfolios are initially constructed with 40 to 60 securities.

Our **Innealta Capital Division** specializes in the creation and tactical management of exchange traded fund portfolios.

Innealta Capital manages discretionary accounts (portfolios) among exchange traded funds and, where appropriate, in combination with a basket of equities utilizing a strategy similar to the Value strategy.

We offer the following strategies as part of the Innealta Tactical ETF Portfolio Series. They are rebalanced at regular intervals:

- The Risk-Based Core Portfolios are comprised of three separate portfolios, each distinguished by a unique strategic asset allocation to two baskets of exchange-traded funds (ETFs). One of

those baskets is comprised of fixed income ETFs, while the other is comprised of equity ETFs. The three Risk-Based Core Series portfolios are: Conservative (40% equity, 60% fixed income); Moderate (60% equity, 40% fixed income); and Growth (80% equity, 20% fixed income).

- The Risk-Based Opportunity Portfolios are comprised of three separate portfolios, each distinguished by a unique strategic asset allocation to two baskets of ETFs. One of those baskets is comprised of fixed income ETFs, while the other is comprised of leveraged equity ETFs. The Risk-Based Opportunity portfolios use the same tactical model as the Risk-Based Core portfolios, but implement the strategy using leveraged ETFs in specific equity asset classes to obtain similar exposure as the Risk-Based Core portfolios but with a lower dollar allocation. The remaining capital is then deployed to try to optimize the investment characteristics of the portfolio. The three Risk-Based Opportunity Series portfolios are: Conservative (40% equity, 60% fixed income); Moderate (60% equity, 40% fixed income); and Growth (80% equity, 20% fixed income). The use of leverage can magnify gains and losses in a portfolio. For more information, see Item 8 “Methods of Analysis, Investment Strategies and Risk of Loss.”
- The Tactical ETF Rotation Portfolios are comprised of four separate portfolios and are constructed to seek optimal risk-adjusted returns across all market cycles. The strategies are based on quantitative frameworks designed to identify the maximum risk-adjusted returns appropriate to meet the investment objective of each individual strategy. Three of the strategies, the Country Rotation Portfolio, the Sector Rotation Portfolio, and the Sector Opportunity Portfolio utilize a disciplined quantitative approach that enables the portfolio manager to determine investment exposures to equities, fixed income, and/or alternative asset classes, among others. The exposures are determined to ensure that the investment characteristics of the portfolio are always consistent with the investment objectives of the strategy. The fourth strategy, the Fixed Income Portfolio, deploys an approach which offers the portfolio manager an objective and disciplined framework to allocate optimally across numerous fixed income sectors. All of the strategies use ETFs to construct the portfolios. Together, the portfolio strategies seek to outperform their benchmarks on a risk-adjusted basis through diversification, active management, style integrity, minimized security selection risk, trading and cost efficiency. Sector Opportunity Rotation Portfolio utilizes leverage, which can magnify gains and losses, as described in more detail in Item 8. The Dynamic Portfolio Series combines a near-term adaptable tactical portfolio component that emphasizes risk management with a long-term-oriented strategic portfolio component focused on undervalued U.S.-traded equities – similar to the Value strategy mentioned above – and then wraps that combination around a fixed-income ballast. Together, the portfolio strategies seek to provide benchmark-beating returns through:
 - Income-generating stability through fixed-income
 - Controlled adaptability through the tactical component
 - Patient selectivity through the strategic component

The three Dynamic Portfolio Series portfolios are: Conservative (50% fixed income, 25% tactical, 25% strategic); Moderate (25% fixed income, 37.5% tactical, 37.5% strategic); and Growth (50% tactical, 50% strategic).

Our advice is limited to that described above. Investment allocation decisions are based upon a number of factors, including your representations, completion of a client worksheet that gives us information about your investment objectives, risk tolerance, and time horizon, and conversations with you about the same.

When you engage our managed account services, you enter into a written Investment Advisory Agreement with us. You authorize us to have access to your account in order to manage it according to the strategy or strategies selected. The Investment Agreement outlines the nature of our duties, lists applicable fees, contains required disclosures, and contains certain limits to our liability. The Investment Agreement also specifies that we have the power to vote proxies with respect to securities held in the account(s) unless you instruct us otherwise. It is possible for you to impose restrictions on investing in certain securities, though that may limit our ability to execute the strategy as described above.

As of December 31, 2012, we managed approximately \$676 million on a discretionary basis (Assets Under Management) and \$3.8 billion on a non-discretionary basis (Assets Under Advisement).

We recommend stocks in The Prudent Speculator ("TPS") that John Buckingham, other employees, the Funds, managed clients, or model portfolios may already own. Model Portfolios (for the newsletters) are actual or hypothetical portfolios posted on our Web site prudent-speculator.com. Every new newsletter transaction is listed in the Sales Alerts and may also be listed in the Market Commentary or newsletter. When buying stocks for managed accounts, their orders are placed ahead of any employee's order. When first-time recommendations are made in the newsletters, no employee will trade in those stocks for his or her account until two market days after the trade is posted to the newsletter's Web site. No access person for the Funds may trade ahead of the Funds. We sometimes trade stocks not recommended in the newsletters in order to average down or up, balance portfolios, meet margin calls or meet clients' requests for cash or specific stocks.

Item 5 – Fees and Compensation

We bill our clients for our management services on a quarterly basis. Fees are payable at the beginning of each three-month period. The fee schedule is applied to the fair market value of the assets of the Account(s) as of the beginning of the three-month period. Multiple portfolios of each client are combined to effect fee savings. Unless otherwise agreed to, fees are debited directly from the cash balance of the account. Initial fees are prorated to the extent the period from that date of the Investment Management Agreement is less than a full three-month period. At the termination of the Investment Management Agreement, we refund on a prorated basis any fees paid in advance.

The fee-schedule is as follows:

- 1.50 percent per annum (0.375% per quarter) of the first \$500,000, and
- 1.25 percent per annum (0.3125% per quarter) of the next \$500,000, and
- 1 percent per annum (0.25% per quarter) of amounts above \$1,000,000.

Some clients may pay fees that are different from those listed above either because the client agreed to a fee schedule in the past that is no longer in effect or because special fees may be negotiated with individual clients or advisors. Fees may be negotiable.

We generally charge 50% of our regular fee for the Innealta Tactical ETF Portfolio Series – Fixed Income portfolio.

We recommend Charles Schwab & Co., Inc. (“Schwab”), and Fidelity Brokerage Services, LLC (“Fidelity”). They have consistently provided excellent brokerage services, which include: competitive execution rates, trading resources, back office support, electronic account data and seamless account transfers. In certain very limited instances, we may allow brokerage services and custody at a brokerage firm other than Schwab and Fidelity. You may be charged an additional fee in these situations because more manual work is involved.

If you also invest in our mutual funds, you pay fees as detailed in the prospectus for each fund (available by calling or writing us or on our website at www.alfrankfunds.com for our value funds or www.innealtafunds.com for our ETF funds). Our Dividend Value mutual fund also is included in our Dividend Value managed account composite as the strategies are similar. Fees for each product are separate and distinct.

AFAM reserves the right to assess a \$500 account termination fee under certain circumstances. Agreements may be terminated in writing or by phone. Fees are billed on a pro rata basis to the termination date. We will not begin management of your portfolio until all required documents are authorized by you and received by us in good order.

You may incur certain charges imposed by your broker-dealer or custodian, such as custodial fees and charges imposed directly by a mutual fund or exchange traded fund in the account, which will be disclosed in the fund’s prospectus. For assets held outside of a wrap fee program, you may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to our management fee.

We are a sub-advisor for various wrap and platform programs. Wrap and platform sponsors usually bill clients in advance on a quarterly basis and calculate fees based on the market value of the assets on the last day of the preceding quarter. We receive a portion of the total fee charged by the wrap and platform sponsor as negotiated with each firm sponsor. We offer services through a wrap fee program sponsored by Envestnet Asset Management, Inc. and other Turnkey Asset Management Programs (TAMP) whereby we receive a fee for providing investment models for use in the third party model programs based on the market value of the assets being managed. The program sponsors provide a complete description of the TAMP and wrap/platform terms and conditions including fees, in their respective ADV Part 2As. Because we do not have primary relationship responsibilities in these situations, Program sponsors are responsible for providing their Form ADV Part 2As and other required documents - such as Privacy Policies - to each participating client.

As an accommodation, non-fee paying accounts may be set up for clients and/or their family members where the funds are solely invested in one or more of our mutual funds. The accounts are not actively managed and we do not send out reports or statements for these accounts.

John Buckingham and other AFAM investment professionals speak at investment seminars and other functions for various organizations for negotiated honoraria and expenses.

The current subscription rate for *The Prudent Speculator* is \$295 for one year (12 issues).

Item 6 – Performance-Based Fees and Side-By-Side Management

AFAM does not manage accounts using a performance-based fee (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

We provide portfolio management services to individuals, including high net worth individuals, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities. We also are advisor to certain no-load mutual funds, the Al Frank Fund, Al Frank Dividend Value Fund, the Innealta Capital Country Rotation Fund, the Innealta Capital Sector Rotation Fund, the Innealta Capital Country Rotation Portfolio and the Innealta Capital Sector Rotation Portfolio.

We currently request that new management clients invest a minimum of \$500,000. We will accept less than the minimum in some situations. The minimum for most wrap fee programs and platforms is \$100,000. Should you engage our firm to provide portfolio management services, please be aware that you will be giving our portfolio managers discretion to buy and sell securities within your account.

As described in Item 5, we are a sub-advisor for various wrap and platform Programs. We also provide our model investment frameworks to certain financial service intermediaries by agreement, and we receive a fee for this service.

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

We generally provide management services for exchange-listed and over-the-counter traded equity securities and exchange traded funds. We do not generally analyze or manage commercial paper, bank certificates of deposit, municipal securities, U.S. government securities, option contracts on commodities, or interests in partnerships (except for master limited partnerships traded on exchanges). However, we may provide advice on any type of investment held in a client's portfolio at the start of the advisory relationship.

We use data sources such as Bloomberg and Thompson in order to run analytics.

AFAM's Al Frank Asset Management division buys common stocks that it considers to be undervalued and that trade on the U.S. exchanges. Stocks are held in widely diversified portfolios for their long-term appreciation potential, or until our research finds a candidate with more attractive risk/reward attributes or an individual stock's evolved risk/reward profile fails to justify continued ownership.

It is possible for you to use margin (borrowed money that is used to purchase securities) with Value strategies. Use of margin magnifies both gains and losses and subjects you to unique risks, such as interest payments for use of borrowed money. We set limits on use of margin and will require you to sign a margin agreement if you want to use margin.

The Innealta Capital division invests in ETFs as previously described in Item 4, Advisory Business.

Investing in securities involves risk of loss that clients should be prepared to bear. Investing in securities of small and medium-sized companies may involve greater volatility and risk.

ETFs are subject to risks similar to those of stocks, such as market risk, and you may experience losses. The use of leverage (borrowed capital) by an exchange-traded fund increases the risk to the fund. The more a fund invests in leveraged instruments, the more the leverage will magnify gains or losses on those investments. As described in Item 4, the following ETFs use leverage: The Innealta Tactical ETF Portfolio Series: The Risk-Based Opportunity Portfolios and Sector Opportunity Rotation Portfolio.

The value of an investment and the return on invested capital will fluctuate over time and, when sold or redeemed, may be worth less than its original cost. Additionally, fixed income (bond) ETFs are subject to interest rate risk which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Investments in foreign investments may incur greater risks than domestic investments.

Sector ETFs, such as Real Estate Investment Trusts (“REITs”) are subject to industry concentration risk, which is the chance that stocks comprising the sector ETF will decline due to adverse developments in the respective industry.

Securities rated below investment grade, commonly referred to as “junk bonds”, may involve greater risks than securities in higher rating categories. Junk bonds are regarded as speculative in nature, involve greater risk of default by the issuing entity, and may be subject to greater market fluctuations than higher rated fixed income securities.

Country/Regional risk is the chance that world events such as political upheaval or natural disaster will adversely affect the value of securities issued by companies in foreign countries or regions. Country/Regional risk is especially high in emerging markets.

Emerging markets risk is that chance that stocks of companies located in emerging markets will be substantially more volatile, and substantially less liquid, than the stocks of companies located in more developed foreign markets.

Diversification does not protect against loss in declining markets.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of AFAM or the integrity of our management. AFAM has no criminal, regulatory, civil, or other actions to report applicable to this item.

Item 10 – Other Financial Industry Activities and Affiliations

We act as advisor to the Al Frank Fund, Al Frank Dividend Value Fund, the Innealta Capital Country Rotation Fund, the Innealta Capital Sector Rotation Fund, the Innealta Capital Sector Rotation Portfolio and the Innealta Capital Country Rotation Portfolio, (the “Funds”).

The Al Frank Funds are each a diversified series of shares of beneficial interest of Northern Lights Fund Trust II, a statutory trust organized under the laws of the State of Delaware on August 26, 2010, and are registered under the Investment Company Act of 1940, as amended, as open-end management investment companies. The Al Frank Fund began operations January 2, 1998 and the Al Frank Dividend Value Fund began operations September 30, 2004. The investment objective of the Al Frank Funds is to seek growth of capital by investing in out of favor and undervalued equity securities. For more information and a prospectus, phone 888.263.6443 or contact our office.

The Innealta Capital Sector Rotation Fund and the Innealta Capital Country Rotation Fund are each a diversified series of shares of beneficial interest of Northern Lights Fund Trust II, a statutory trust organized under the laws of the State of Delaware on August 26, 2010, and are registered under the Investment Company Act of 1940, as amended, as open-end management investment companies. The Funds seek capital appreciation and current income, consistent with the preservation of capital, and commenced operations on December 19, 2011. For more information and a prospectus, phone 855.USE.ETFS or contact our office.

The Innealta Capital Sector Rotation Portfolio and Innealta Capital Country Rotation Portfolio are each a diversified series of shares of beneficial interest of Northern Lights Variable Trust, a statutory trust organized under the laws of the State of Delaware on November 2, 2005, and are registered under the Investment Company Act of 1940, as amended, as open-end management investment companies. The Portfolios seek capital appreciation and current income, consistent with the preservation of capital, and commenced operations on November 8, 2012. For more information and a prospectus, phone 855.USE.ETFS or contact our office.

The prospectuses contain more complete information, including risks, fees and expenses. Read it carefully before you invest. Certain AFAM employees maintain FINRA registrations through Northern Lights Distributors, LLC, the distributor for the Al Frank Funds, the Innealta Funds and the Innealta Portfolios.

We have business arrangements with firms that allow the listing of AFAM on their intranet sites and opportunities to participate in conferences and meetings, for a fee. We are party to licensing agreements whereby we provide investment models for use in third party model programs. We may receive referrals from these business relationships.

Item 11 – Code of Ethics

We maintain, monitor and enforce a formal Code of Ethics and Standards of Professional Conduct for our employees. It is our policy that each employee conducts his or her business affairs with such standards of integrity that all real and potential conflicts of interest are either eliminated or fully disclosed so that no other conflict of interest exists or can be implied or construed. Employees and Access Persons complete Conflicts of Interest disclosure questionnaires, which are reviewed and approved or not approved by AFAM's Chief Compliance Officer.

The Company has also adopted the CFA Institute's "Code of Ethics and Standards of Professional Conduct."

The Code of Ethics describes our fiduciary duty to you and outlines our high standards of business conduct. The Code includes provisions relating to the confidentiality of client information, a

prohibition on insider trading, restrictions on the acceptance of significant gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at AFAM must acknowledge the terms of the Code at the inception of employment and annually thereafter, or upon the amendment of the Code. The AFAM Code includes policies and procedures reasonably designed to prevent the misuse of material non-public information by investment advisers. The Code also contains procedures with respect to personal securities transactions of all AFAM officers and employees ("Access Persons"). These procedures cover transactions in a security in which the Access Person has a beneficial interest or in accounts over which the Access Person exercises control, as well as transactions by members of their immediate family.

The Code directs Access Persons of AFAM to conduct their affairs, including their personal securities transactions, in such manner to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the firm and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility. This fiduciary duty includes the duty of the Chief Compliance Officer of AFAM to report material violations of the Code to AFAM's Senior Management and Board of Directors. All Access Persons complete a personal securities transaction report to the Chief Compliance Officer quarterly.

The Code also is designed to assure that the personal securities transactions, activities and interests of the employees of AFAM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) the implementation of such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of our clients.

In addition, the Code restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and is designed to reasonably prevent conflicts of interest between AFAM and its clients.

You can request a copy of our Code of Ethics by contacting AFAM's Chief Compliance Officer at the phone number listed on the cover of this brochure.

Item 12 – Brokerage Practices

We encourage clients to use Schwab Institutional, a division of Charles Schwab & Co., Inc. ("Schwab") and Fidelity Brokerage Services, LLC ("Fidelity"). If you direct brokerage to a provider other than Schwab or Fidelity, you may pay higher commissions in some instances, depending on our ability to negotiate commissions, obtain volume discounts or best execution from the broker selected.

We select brokers principally on the basis of their commission rates and quality of execution and service, not on the basis of any products, research or "soft dollars." You are responsible for verifying that they are receiving best execution if you direct your brokerage to a provider other than our recommended brokers. (Best execution refers to our obligation on your behalf to ensure that the prices on trade orders we execute on your behalf receive and reflect the optimal mix of price improvement, speed and likelihood of execution.)

Schwab Institutional and Fidelity provide AFAM with access to their institutional trading and operations services, which are typically not available to Schwab or Fidelity retail investors. Schwab Institutional and Fidelity also make available to AFAM other products and services that benefit AFAM but may not benefit your account(s), such as periodic and limited commission free trades. Some of these other products and services assist AFAM in managing and administering clients' accounts. Schwab Institutional and Fidelity may also provide AFAM with other services intended to help AFAM manage and further develop its business enterprise. Schwab Institutional and Fidelity may discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of a third-party providing these services.

Our authority to manage and trade extends only to those amounts agreed upon under our management. In discretionary accounts, we have the authority to determine, without obtaining your current consent before the transactions are affected, both the securities that are to be bought or sold and the amount of such securities. The only limitations on our authority are those you may impose by specifying that you wish to avoid certain types of stocks, e.g., nuclear utilities, tobacco or liquor stocks.

We may occasionally co-sponsor educational or client events with certain broker-dealers or custodians.

On the occasion that we transact the same security, at the same time, for multiple accounts, it is the policy of the firm to utilize a rotational order execution and allocation system based on the alphabet. The sequence in which orders of directed and non-directed accounts are placed with brokers is determined alphabetically and then reverse-alphabetically. In certain instances, based upon factors such as the size of a trade, liquidity of a security, and/or execution strategy, the firm may elect to trade outside the rotational strategy in order to seek the most favorable executions possible pursuant to our fiduciary responsibility to our clientele. The firm is able to route orders via our order management system to multiple FIX-connected brokers simultaneously and thus may route orders for execution across multiple custodians at the same time. In addition, step-out trading may be utilized to achieve simultaneous executions for accounts housed with different custodians. As such, orders may be aggregated and routed to one executing broker, resulting in the same price for all aggregated accounts. In both instances, divergence from the alphabetical rotation may occur due to the inability of some custodians to participate in FIX or step-out trading. Regardless of the trading strategy used, it is always the objective of the firm to ensure that no client, or group of clients, is systematically disadvantaged over time.

Block orders may be used when it is in the best interest of each client participating in the order. Partially filled bunched orders are allocated to the least-invested account when purchasing and the most-invested account when selling.

We request and encourage you to grant authority, in writing, to have management fees deducted directly from your brokerage account.

Item 13 – Review of Accounts

Al Frank Asset Management: Portfolio managed accounts are generally updated daily by computer, with summaries reviewed that show cash available, debit balance and market value. In addition, updated daily analyses of all followed (including owned) stocks indicate stocks that are buy or sell candidates which then are cross-referenced to stocks held in individual accounts. If you have a

question, request, or deposit funds, we will conduct a relative review of your portfolio. If on-going fundamental or technical analyses reveal strategic actions to be taken, discretionary powers are invoked, and we will notify you depending upon the nature of the situation. All portfolios are reviewed by John Buckingham and the portfolio management team.

Innealta Capital: Portfolios are primarily allocated investment assets, on a discretionary basis, among exchange traded funds and, where appropriate, in combination with a basket of equities utilizing a strategy similar to the select value strategy, in accordance with your investment objectives and risk tolerance. The portfolios are rebalanced based on the quantitative model for the tactical portfolios whereby the aggregate signals are used to determine whether the model is bullish or bearish on each individual equity market relative to non-equity classes. If the model indicates a change, the portfolios are reviewed and rebalanced accordingly. Dr. Gerald Buetow and the portfolio management team are responsible for review and management of the portfolios.

After an initial setup conference and periodic reviews, trading for discretionary accounts is usually affected without further consultation.

We mail our clients quarterly portfolio printouts, quarterly fee statements (see Section 15 “Custody”), semi-annual and annual performance statements (excluding wrap and platform clients, who receive reports directly from the wrap/platform sponsor).

Additionally, clients of our AI Frank Asset Management division receive The Prudent Speculator, our monthly investment advisory publication, and its Sales Alerts and weekly Market Commentary that keep them informed of currently recommended stocks with goal price objectives, recommended stock market strategies and model portfolio changes (excluding wrap and platform clients).

Item 14 – Client Referrals and Other Compensation

We directly compensate a non-employee (outside) entities (Solicitor) for client referrals. In order to receive a referral fee from our firm, a Solicitor must comply with the requirements of the jurisdictions in which they operate. If you were referred to our firm by a Solicitor, you should have received a copy of this disclosure brochure (AFAM’s ADV Part 2A) along with the Solicitor’s disclosure statement at the time of the referral. If you become a client, the Solicitor that referred you to our firm will receive a percentage of the advisory fee you pay our firm for as long as you are a client, or until such time as our agreement with the Solicitor expires. You will not pay additional fees as a result of this referral agreement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, a Solicitor has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services.

Item 15 – Custody

We do not take physical custody of clients’ securities or funds and all account deposits and withdrawals must be done directly with the brokerage house. We are deemed by the Securities and Exchange Commission to have custody under Rule 206 (4)-2 of The Act because we request that you give us authority to deduct advisory fees directly from your account(s).

Our clients should receive statements at least quarterly directly from the broker dealer, bank or other qualified custodian that holds and maintains their investment assets.

We mail our clients quarterly fee statements (excluding wrap and platform clients, who receive reports directly from the wrap/platform sponsor). Clients also receive trade confirmations and monthly statements directly from their broker-dealer or custodian, as all accounts are in the client's name.

There may be differences between our statements and the statements provided by the custodian because we use end-of-month prices as delivered electronically by a data provider, while brokerage statements may use closing prices of a day or more before month end. We urge our clients to carefully review such statements and compare such official custodial records to the account statements that we provide.

Item 16 – Investment Discretion

We receive discretionary authority from you at the beginning of our relationship with you to select the specific securities and amount of those securities to be bought or sold. Terms of this authority are laid out in our Investment Management Agreement. We execute such discretion in a manner consistent with the stated investment objectives for your account and the stated investment strategy of the portfolio(s) we manage on your behalf.

Item 17 – Voting Client Securities

We act as discretionary investment advisor for various clients, including clients governed by the Employee Retirement Income Security Act of 1974 ("ERISA") and a registered open-end investment company (mutual fund). As advisor, we have authority to vote certain proxies or act with respect to other shareholder actions. We generally vote proxies for securities we have selected that are held in your account(s), unless you tell us in writing that you want to retain the right to vote the proxies.

Where we have been delegated the authority to do so, we will vote proxies and act on all other corporate actions in a timely manner in accordance with our Proxy Voting Policies and Procedures.

When voting proxies or acting with respect to corporate actions for you, our utmost concern is that all decisions are made solely in your best interests (and for ERISA accounts, plan beneficiaries and participants, in accordance with the letter and spirit of ERISA). We will act in a prudent and diligent manner intended to enhance the economic value of the assets of your account(s).

Although many proxy proposals can be voted in accordance with our established guidelines, we recognize that some proposals require special consideration, which may dictate that an exception be made to the guidelines. We are also responsible for ensuring that all corporate action notices or requests which require shareholder action received by us are addressed in a timely manner and consistent action is taken across all similarly situated client accounts.

Where a proxy proposal raises a material conflict between our interests and your interests, such as if you are a mutual fund client, we will resolve such a conflict by voting in accordance with established guidelines; obtaining your consent to the proposed vote prior to voting the security; or forwarding the proxy matters to an independent third party as you direct. We will review the proxy proposal for conflicts of interest as part of the overall vote review process.

We will not vote proxies if we determine that the value of your economic interest or the value of the portfolio holding is indeterminable or insignificant. We also will not vote proxies received for

securities that are no longer held in your account(s). In addition, we generally will not vote securities where the economic value of the securities in your account is less than \$500, or in certain circumstances, after doing a cost-benefit analysis, we may abstain from voting where the cost of voting your proxy would exceed any anticipated benefits to you.

We generally will not vote securities that are out on loan, transferred into the borrower's name and are voted by the borrower, in its discretion. However, where we determine that a proxy vote (or other shareholder action) is materially important to your account(s), we may recall the security for purposes of voting.

These policies and procedures also reflect the fiduciary standards and responsibilities set forth by the Department of Labor for ERISA accounts.

Clients may obtain information on how their securities were voted, or receive a copy of our Proxy Voting Policies and Procedures by contacting AFAM's Chief Compliance Officer at the phone number listed on the cover of this brochure.

Item 18 – Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to you. We have not been the subject of a bankruptcy proceeding.

John Buckingham

Al Frank Asset Management

85 Argonaut, Suite 220, Aliso Viejo, CA 92656
949.499.3215

a division of

AFAM Capital, Inc.

12117 FM 2244, Bldg. 3, #170, Austin, TX 78738
512.354.7041

July 15, 2013

This Brochure Supplement provides information about John Buckingham that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Elizabeth Willmore, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.

Educational Background and Business Experience

John Buckingham, Chief Investment Officer, has been a part of AFAM Capital, Inc., since 1987. Mr. Buckingham graduated magna cum laude with a B.S. degree in computer science and a minor in business administration from the University of Southern California in 1987. He was born in 1965.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item.

Other Business Activities

Mr. Buckingham writes for and edits The Prudent Speculator investment newsletter, which is produced and owned by AFAM.

Additional Compensation

No information is applicable to this Item.

Supervision

Like all AFAM employees, Mr. Buckingham is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Elizabeth Willmore, AFAM's Chief Compliance Officer (512.354.7044). Ms. Willmore is responsible for supervision of all AFAM individuals providing investment advice to clients. AFAM's Code of Ethics is available upon request. Mr. Buckingham reports to Jeff Montgomery, Chief Executive Officer (512.354.7041).

Gerald Buetow, Ph.D.

Innealta Capital

1705 Owensfield Drive, Charlottesville, VA 22901
434.923.3222

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July 15, 2013

This Brochure Supplement provides information about Dr. Gerald Buetow that supplements AFAM Capital, Inc.'s (AFAM's) Brochure. You should have received a copy of that Brochure. Please contact Elizabeth Willmore, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.

Educational Background and Business Experience

Gerald (Jeff) Buetow, Ph.D., CFA*, Chief Investment Officer of the Innealta Capital division of AFAM Capital, Inc. has been with the firm since November of 2009. Dr. Buetow has a B.S. in Electrical Engineering (1985) an M.S. in Economics (1992) and a Ph.D. in Finance and Econometrics (1993) from Lehigh University. He also has a M.S. in Finance from the University Texas (1989). His professional background includes founder of Innealta Portfolio Advisors, LLC, from October 2008 to November 2009; Senior Portfolio Manager and Managing Director at PMC-Envestnet from June 2008 to December 2008; Chief Investment Officer at XTF GAM, LLC, from June 2006 to March 2008; and Director of Research at Atlantic Asset Management from January 2003 to June 2006. He was born in 1962.

*CFA - Chartered Financial Analyst, minimum qualifications include either an undergraduate degree and four years of professional experience involving investment decision-making, or four years of qualified work experience (full time, but not necessarily investment related); completion of a self-study program (250 hours of study for each of the three levels), and three course exams. For more information on the CFA designation, please visit <https://www.cfainstitute.org/>.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

Other Business Activities

Dr. Buetow provides quantitative finance consulting services through BFRC Services, LLC. BFRC provides a wide spectrum of expertise from basic training needs such as CFA examination training to sophisticated research such as quantitative modeling and structured note valuation and modeling.

Additional Compensation

No information is applicable to this item.

Supervision

Like all AFAM employees, Dr. Buetow is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Elizabeth Willmore, AFAM's Chief Compliance Officer (512.354.7044). Ms. Willmore is responsible for supervision of all AFAM individuals providing investment advice to clients. AFAM's Code of Ethics is available upon request. Dr. Buetow reports to Jeff Montgomery, Chief Executive Officer (512.354.7041).

Jason Clark

Al Frank Asset Management

85 Argonaut, Suite 220, Aliso Viejo, CA 92656
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12117 FM 2244, Bldg. 3, #170, Austin, TX 78738
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July 15, 2013

This Brochure Supplement provides information about Jason Clark that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Elizabeth Willmore, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.

Educational Background and Business Experience

Jason Clark, CFA*, Portfolio Manager, Assistant Vice President, has been with AFAM since February 2007. After serving in the United States Navy, Mr. Clark graduated summa cum laude with a B.A. degree in finance from the University of West Florida in 2001. His professional background includes Associate Securities Research Analyst with A.G. Edwards, Inc. from 2005 to 2006 and Corporate Bond Trader and Fixed Income Specialist with Edward D. Jones and Company, LLC from 2002 to 2005. He was born in 1971.

*CFA - Chartered Financial Analyst, minimum qualifications include either an undergraduate degree and four years of professional experience involving investment decision-making, or four years of qualified work experience (full time, but not necessarily investment related); completion of a self-study program (250 hours of study for each of the three levels); and three course exams. For more information on the CFA designation, please visit <https://www.cfainstitute.org/>.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

Other Business Activities

No information is applicable to this item.

Additional Compensation

No information is applicable to this item.

Supervision

Mr. Clark reports to John Buckingham, Chief Investment Officer (949.715.3249). Like all AFAM employees, Mr. Clark is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Elizabeth Willmore, AFAM's Chief Compliance Officer (512.354.7044). Ms. Willmore is responsible for supervision of all AFAM individuals providing investment advice to clients. AFAM's Code of Ethics is available upon request.

Chris Creed

Al Frank Asset Management

85 Argonaut, Suite 220, Aliso Viejo, CA 92656
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July 15, 2013

This Brochure Supplement provides information about Chris Creed that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Elizabeth Willmore, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.

Educational Background and Business Experience

Chris Creed, CFP*, Vice President, Private Client Sales Director, joined AFAM in July 2013. Before joining AFAM, he was with Fisher Investments PCG, where he was Regional Vice President for Louisiana and Mississippi. Until 2006, he was the owner of an independent wealth management practice, Creed Capital Management, through Wachovia Securities Financial Network. From 1994 to 2003, Mr. Creed was an investment representative with Edward Jones. He holds a B.A. in Marketing from Southeastern Louisiana University. He was born in 1971.

*CFP - CFP and Certified Financial Planner are certification marks owned by the Certified Financial Planner Board of Standards, Inc. These marks are awarded to individuals who successfully complete the CFP Board's initial and ongoing certification requirements. For more information on the CFA designation, please visit <http://www.cfp.net/>.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

Other Business Activities

No information is applicable to this item.

Additional Compensation

No information is applicable to this item.

Supervision

Mr. Creed reports to Chief Executive Officer Jeff Montgomery (512.354.7041). Like all AFAM employees, Mr. Creed is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Elizabeth Willmore, AFAM's Chief Compliance Officer (512.354.7044). Ms. Willmore is responsible for supervision of all AFAM individuals providing investment advice to clients. AFAM's Code of Ethics is available upon request.

Jeff Montgomery

AFAM Capital, Inc.

12117 FM 2244, Bldg. 3, #17, Austin, TX 78738
512.354.7041

July 15, 2013

This Brochure Supplement provides information about Jeff Montgomery that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Elizabeth Willmore, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.

Educational Background and Business Experience

Jeff Montgomery, Chief Executive Officer, joined AFAM Capital, Inc. in May of 2008 as CEO. Prior to that, he served on the board for AF Holdings, Inc., the parent company of AFAM. Currently, Mr. Montgomery serves as Chairman of the Board for AF Holdings.

He was President and CEO at NFP Securities where he was employed from May 2001 to 2008.

Mr. Montgomery received a law degree from the University of Oregon in 1992 and he graduated cum laude with a B.A. degree in finance from University of St. Thomas in 1989. He was born in 1966.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

Other Business Activities

Mr. Montgomery is a Financial Industry Regulatory Authority (FINRA), Registered Representative, and maintains his FINRA Registered Representative status through Northern Lights Distributors, LLC, the distributor of the AI Frank and Innealta Funds.

Since 2006, Mr. Montgomery has served as a member of the Advisory Board for Captrust Financial Advisors. Captrust provides advisory services for institutional and private wealth clients.

Additional Compensation

No information is applicable to this item.

Supervision

Like all AFAM employees, Mr. Montgomery is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Elizabeth Willmore, AFAM's Chief Compliance Officer (512.354.7044). Ms. Willmore is responsible for supervision of all AFAM individuals providing investment advice to clients.

Mark Mowrey

AFAM Capital, Inc.

12117 FM 2244, Bldg. 3, #170, Austin, TX 78738
512.354.7041

July 15, 2013

This Brochure Supplement provides information about Mark Mowrey that supplements AFAM Capital, Inc's Brochure. You should have received a copy of that Brochure. Please contact Elizabeth Willmore, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.

Educational Background and Business Experience

A member of the firm's Research and Portfolio Management Team since 2004, Mark Mowrey is currently Senior Vice President, Portfolio Manager at Innealta Capital. Mr. Mowrey graduated from the Wharton School of the University of Pennsylvania in 1994. Prior to joining the firm, Mr. Mowrey served as the Director of Research at Red Herring Communications, a technology- and finance-related magazine publisher. Mr. Mowrey's background includes work as a public equity research analyst, a financier in private equities, a consultant and an entrepreneur. Mr. Mowrey is a CFA Charterholder.

*CFA - Chartered Financial Analyst, minimum qualifications include either an undergraduate degree and four years of professional experience involving investment decision-making, or four years of qualified work experience (full time, but not necessarily investment related); completion of a self-study program (250 hours of study for each of the three levels); and three course exams. For more information on the CFA designation, please visit <https://www.cfainstitute.org/>.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

Other Business Activities

Mr. Mowrey is a member of the board of directors of the holding company for Symmco, Inc., a privately held powdered metals manufacturing company.

Additional Compensation

No information is applicable to this item.

Supervision

Mr. Mowrey reports to Chief Executive Officer Jeff Montgomery (512.354.7141). Like all AFAM employees, Mr. Mowrey is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Elizabeth Willmore, AFAM's Chief Compliance Officer (512.354.7044). Ms. Willmore is responsible for supervision of all AFAM individuals providing investment advice to clients. AFAM's Code of Ethics is available upon request.

Elizabeth Willmore

AFAM Capital, Inc.

12117 FM 2244, Bldg. 3, #170, Austin, TX 78738
512.354.7041

July 15, 2013

This Brochure Supplement provides information about Elizabeth Willmore that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Elizabeth Willmore, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.

Educational Background and Business Experience

Elizabeth Willmore, Chief Compliance Officer, has been with AFAM since May 2012. Ms. Willmore received her B.S. degree from the University of Houston in 1999 with a major in psychology. She served as Chief Compliance Officer for Presidio Financial Services, Inc. in San Antonio, Texas from 2004 to 2012 and was employed by NFP Securities, Inc. as a Regional Senior Sales Supervisor from 2001 through 2004. She was born in 1973.

Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

Other Business Activities

Ms. Willmore is a Financial Industry Regulatory Authority (FINRA) Registered Representative, and maintains her FINRA Registered Representative status through Northern Lights Distributors, LLC, the distributor of the AI Frank and Innealta Funds.

Additional Compensation

No information is applicable to this item.

Supervision

Like all AFAM employees, Ms. Willmore is an Access Person of the firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual. She reports to Jeff Montgomery, Chief Executive Officer (512.354.7041). AFAM's Code of Ethics is available upon request.