

Part 2A of Form ADV: Firm Brochure

**Item 1. Cover Page**

**Rushmore Investment Advisors, Inc.**

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**This brochure provides information about the qualification and business practices of Rushmore Investment Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (972) 599-9550 or [compliance@rushadv.com](mailto:compliance@rushadv.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. It has been prepared by the principals of our firm in the format mandated by the Securities and Exchange Commission.**

**Additional information about Rushmore Investment Advisors, Inc. is also available on the Internet at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).**

**We refer to ourselves as a “registered investment advisor”. Registration does not imply a certain level of skill or training.**

**Date Prepared: March 30, 2012**

## Item 2 - Material Changes

This section of the firm brochure is designed to provide a summary of material changes that have occurred within our firm since the last ADV brochure update on March 31, 2011. A material change that did occur since our last annual update was the successful merger of our firm with Northstar Capital Management, Inc (NCM).

Effective December 31, 2010, Rushmore Investment Advisors, Inc (RIA) signed a definitive agreement to acquire the assets of Florida-based registered investment advisor Northstar Capital Management, Inc. (NCM). Under the terms of the acquisition, RIA acquired the assets of NCM and retained select key members of the executive, portfolio management and client service teams. RIA and NCM shared similar cultures and investment management products, which we believe ensured a high level of organization alignment and transition success. The RIA investment process and the organizational structure did not change, and all NCM portfolios are now managed according the RIA investment process.

The acquisition did result in the following notable enhancements to RIA:

- 1) Additional depth to our professional staff:
  - a. Steve Mergler, JD and Margarita Fernandez (Margie) joined RIA in a relationship management capacity. Both professionals enhance our ability to serve clients and their consultants and advisors. Both professionals work out the RIA Boca Rotan office to serve the Firm's expanded client base in Florida.
  - b. Jason McPharlin joined the RIA investment committee as a portfolio manager where he is responsible for stock selection in the RIA portfolios. Jason is the lead portfolio on the RIA Equity Income and Fixed Income Portfolios and is based in the Firm's Plano office.
  - c. Kent Mergler, CFA joined the RIA Advisory Committee and provides strategic counsel to the RIA executive committee.
- 2) Additional product depth to our portfolio line-up:
  - a. In addition to RIA's diverse product line-up, with an emphasis in the growth equities, the Firm launched the RIA Equity Income Portfolio. Valued for its defensive characteristics, and when combined with steady income and capital appreciation, the Portfolio of dividend paying stocks serves to stabilize and enhance investors' equity returns. The Portfolio focuses on companies with a consistent track record of increasing their dividends to generate bond-like income with equity-like returns.

There were no other organizational changes to RIA's operations or management.

**Item 3 - Table of Contents**

1.	Cover Page	1
2.	Material Changes	2
3.	Table of Contents	3
4.	Advisory Business	4
5.	Fees and Compensation	5
6.	Performance-Based Fees and Side-By-Side Management	7
7.	Types of Clients	7
8.	Methods of Analysis, Investment Strategies and Risk of Loss	8
9.	Disciplinary Information	9
10.	Other Financial Industry Activities and Affiliations	9
11.	Code of Ethics, Participation or Interest in Client Transactions And Personal Trading	9
12.	Brokerage Practices	10
13.	Review of Accounts	12
14.	Client Referrals and Other Compensation	12
15.	Custody	13
16.	Investment Discretion	14
17.	Voting Client Securities	14
18.	Financial Information	15
	Additional Disclosures – Business Continuity Plan	15
	Additional Disclosures – Privacy Policy	15

Item 4 - Advisory Business

Rushmore Investment Advisors, Inc. ("Rushmore") was founded in 1996 for the purpose of providing discretionary investment management services to business and individual clients. Rushmore is an SEC registered investment advisor and is 100% employee owned. The firm’s principal owner is John A. Vann (70%), while several key employees own the remaining 30%. John Vann's interest in the firm is owned through his Family Limited Partnership, Vann Family Partners Ltd., while all other interests are owned directly by key employees.

Separate Managed Account Services

Rushmore specializes in a disciplined investment process and manages portfolios for clients whose objectives are long term growth of equity assets (stocks). While our primary focus is on "Growth" equities, RIA offers a variety of Equity Portfolio options as well as a Fixed Income (Bonds) portfolio option. These services are provided in a separate managed account format. Most clients diversify their investment portfolio among multiple of our portfolio offerings according to their individual investment needs and objectives. The following is a listing of our standard portfolio offerings:

Portfolio	Benchmark Index
US Large Cap Growth (LCG)	Russell 1000 Growth
US Mid Cap Growth (MID)	Russell Mid Cap Growth
Non-US Growth (INTL)	MSCI EAFE Growth
Equity Income (EI)	Russell 1000
Index Advantage (IA)	S&P 500
Fixed Income (FI)	Barclays Muni Bond / Barclays Gov’t/Credit Intermediate

Model Platform Services

Rushmore participates in a number of "Model Platforms" wherein we provide the Model Platform Sponsor with portfolio allocations of one or more of our standard portfolio offerings. The Model Platform makes our allocation, as well as allocations of other investment management firms, available to their clients as investment options. Other than providing our portfolio offering allocation(s) and updates thereon, we provide no other services, nor have any other responsibilities / obligations with regards to the Model Platform Sponsor or its clients.

Special Advisory Services

Rushmore provides Special Advisory Services to clients with more complex/specific financial and investment needs. These needs are normally articulated in a request for proposal or in some other formal document. Clients are typically institutions, pensions or other employee benefit plan sponsors, and/or fiduciaries seeking specific services.

Services provided under this program include assistance with investment alternative selection at the Plan level as well as investment selection and allocation at the individual participant level.

Rushmore tailors our advisory services to the individual needs of our clients through portfolio allocation and specific client requests. While a majority of our clients' assets are allocated amongst our standard portfolio offerings with no restrictions, individual client restrictions such as socially responsible investing and/or other restrictions on specific securities or security types are accommodated.

Rushmore participates in a variety of wrap-fee programs under which we act as the discretionary investment manager and/or program sponsor. Accounts maintained under these wrap-programs are managed in the same manner and along-side our non-wrap accounts. In consideration for our investment management services provided under these programs, we receive a portion of the total fee charged to the client by the program sponsor.

As of 12/31/2011, our assets under management were \$971,299,862. Of this amount, \$681,252,491 were assets managed on a discretionary basis and \$290,047,371 were assets managed on a non-discretionary basis.

## **Item 5 - Fees and Compensation**

Rushmore's compensation for individually managed accounts is based on the amount of assets under management for each client. Typically, fees are billed and payable quarterly based on the value of the assets in the client account(s) at the end of each calendar quarter. Accounts placed under management mid-quarter are charged a pro-rata management fee based on the number of days remaining in the calendar quarter in which the account is placed under our management. Significant contributions to existing accounts are handled in similar pro-rata fashion. Unless specifically agreed to otherwise, fees are electronically debited from client accounts on a quarterly basis. Client fee statements are available at any time upon request. Our typical fee structure is listed below:

Individual Fee Schedule:

Equity Portfolios	
<u>Account Value</u>	<u>Fee (Annual Rate)</u>
On The First \$10,000,000	1.00%
On The Next \$10,000,000	0.75%
On Assets Over \$20,000,000	0.625%
Fixed Income Portfolios	
<u>Account Value</u>	<u>Fee (Annual Rate)</u>
On the First \$5,000,000	0.50%
On The Next \$5,000,000	0.375%
On The Next \$10,000,000	0.3125%
On Assets Over \$20,000,000	0.25%

Institutional Fee Schedule:

RIA Large Cap Growth	
<u>Account Value</u>	<u>Fee (Annual Rate)</u>
On The First \$25,000,000	0.65%
On The Next \$25,000,000	0.60%
On The Next \$50,000,000	0.55%
On The Next \$100,000,000	0.50%
On Assets Over \$250,000,000	Negotiable
RIA Non-US Growth	
<u>Account Value</u>	<u>Fee (Annual Rate)</u>
On The First \$25,000,000	0.75%
On The Next \$25,000,000	0.70%
On The Next \$50,000,000	0.65%
On The Next \$100,000,000	0.60%
On Assets Over \$250,000,000	Negotiable

Fees are negotiable in certain circumstances. When a client relationship terminates, fees collected in advance are promptly refunded upon client request. The refund amount is calculated on a calendar day basis and prorated to the termination date.

Our management fees are not the only fees a client will incur. Clients will incur transaction costs, referred to as commissions, charged by the brokerage firms executing trades. A more detailed discussion of brokerage items is discussed on page 9.

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

Rushmore does not provide performance-based fee arrangements.

**Item 7 - Types of Clients**

Rushmore provides investment management services to a wide variety of clients including: individuals, institutions, trusts, foundations, state & local retirement funds, etc. Below is a table of our client demographics as of 12/31/2011.

Rushmore Client Demographics	
<u>Client Type</u>	<u>Assets Under Management</u>
Individual	\$271,487,068
High Net Worth	\$233,362,164
Pension & Profit Sharing	\$108,644,064
Charitable Organization	\$28,373,304
Corporations	\$59,098,758
State or Municipal Organizations	\$270,334,505
Total	\$971,299,863

The minimum relationship/account size that Rushmore will accept for direct investment management is \$500,000 (individual) and \$1,000,000 (institutional).

Many clients come to Rushmore through introducing Brokers that maintain a Platform or Program that provides for the direct or indirect management of a client’s portfolio by Rushmore. Account minimums for such Platforms are set by each individual brokerage firm. In these

arrangements, the Broker charges a fee to the client for its services including the amount that the brokerage firm pays to Rushmore. The brokerage firm then pays Rushmore a management fee in accordance with a contract between the parties.

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

Rushmore's investment strategy is based on the combination of our proprietary quantitative model and the broad skill set of our investment committee. Simply stated, our investment process harnesses the output of our quantitatively-rich model. Our model quickly gathers, analyzes, sorts, and synthesizes vast amounts of global equity data into a manageable list of equity candidates. These candidates are then validated through a fundamental review process and input from our investment committee. Companies identified possess earnings growth potential that has either not been recognized and/or is expected to continue to exceed earnings and revenues expectations for the foreseeable future. These companies typically respond with a predictable and measurable period of outperformance prior to Wall Street analysts recognizing the evolving earnings trend.

The net effect is a portfolio that we believe will exceed a comparable index/benchmark over a full market cycle of 3-5 years. Our investment committee is responsible for all stock selection and portfolio construction within the confines of the investment process. Only stock candidates identified within the investment process can be included in our portfolios.

Rushmore's investment style performs best under market conditions that reflect a consistent up, down or flat trend, with the highest percentage of relative excess returns occurring in accelerating markets. In cases of market inflection or change in market leadership, the performance of our portfolios will tend to track or lag behind the benchmark as our model requires time to see confirmation of a trend. Risk is mitigated by adhering to risk controls within the investment process.

Our Investment process does not use leverage nor do we employ options in our standard portfolio strategies. On occasion, we will engage in covered call writing, put protection, and/or the use of leverage, to accommodate specific client requests. For such services an additional fee is charged on a case by case basis. We are not engaged in the sale of insurance or annuities, commodity or futures transactions.

We research and employ a vast number of sources in our portfolio management activities. Aside from periodicals and subscription services we examine annual reports, corporate press releases, filings on the SEC Edgar site, and participate in corporate conference calls.



While our research is thorough, clients must be prepared for the risk of loss. All investments in securities risk the loss of capital.

We have identified four principal types of risk: 1) Risk that the stock market declines or the price of individual securities decline while the true long term value of the company may be unchanged or possibly even higher, 2) Our analysis has been faulty, 3) External events may negatively affect the value of a specific company and 4) Fraud, in which case no amount of analysis could have been sufficient.

### **Item 9 - Disciplinary Information**

None.

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

Rushmore is a Registered Investment Advisor with no affiliated broker-dealer, futures commission merchant, commodity pool operator or commodity trading advisor.

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

Rushmore has adopted a Code of Ethics (“Code”) pursuant to SEC Rule 204A-1, which requires each of our employees to comply with all applicable federal and state laws and regulations. In recognition of the trust and confidence placed in us by our clients, our Code is based on the principal and belief that the Client’s interests are paramount. To that end, our Code requires that each employee must place the Client interest before his/her own and must not place one Client’s interest before another. Employees are required to avoid any action that results in a conflict of interest (real or perceived) with the firm and its clients. Our Code prohibits outside business activities without the consent of the Chief Compliance Officer. Employees are prohibited from trading on the basis of material non-public information and are prohibited from accepting extravagant gifts or entertainment from our business relationships. A copy of our Code of Ethics is available upon request.

Rushmore and our representatives do not recommend to clients, nor buy or sell for client accounts, any securities in which we have a material financial interest.

A potential conflict of interest would arise if Rushmore's employees were to own and trade for their own accounts the same securities that we recommend and buy or sell on our client's behalf. To resolve any such potential conflict of interest, we have instituted an employee trading policy that restricts our employees' trading activities. Our employees are allowed to have their accounts professionally managed in one of our portfolios or by an independent 3<sup>rd</sup> party, or they may alternatively trade only mutual funds or ETF's on their own behalf. Employees are also prohibited from excessive personal trading. In the event that an employee has an account managed in one of our portfolio offerings, such account would be traded alongside our client's accounts and receive no favorable treatment. This policy ensures that under no circumstances would our employees be trading against or in conflict with our clients.

## **Item 12 - Brokerage Practices**

Rushmore has a fiduciary and fundamental duty to seek best execution for client transactions. As a matter of policy and practice, we seek to obtain best execution through the selection and utilization of appropriate executing brokers. For this purpose, best execution means seeking to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances.

### *Brokerage Selection*

In selecting broker/dealers for trade execution we evaluate the cost of brokerage services against their quality, and then determine whether the services are the lowest cost for what they provide. Some of the factors we consider in determining the quality of a broker/dealers execution services are: execution capability and available liquidity; timing and size of particular orders; commission rates; responsiveness; trading experience; reputation, integrity and fairness in resolving disputes.

### *Soft Dollar Activities*

Rushmore does participate in soft-dollar arrangements and we may receive soft-dollar credits attributable to the trading activity in our clients' accounts. In addition to receiving proprietary research from the various broker/dealers we utilize to execute client transactions, we have entered into several soft-dollar arrangements with certain broker/dealers. Under these arrangements, we receive a credit for a portion of the commissions charged on some transactions in client accounts.

These credits are used to acquire research related products and services of independent 3<sup>rd</sup> party providers. Examples of products and services obtained during the previous year utilizing soft

dollar credits include: NYSE Pricing, Factset Investment Research, Russell Investment Research and Thomson Reuters (Starmime & First Call Estimates).

Rushmore benefits from the use of soft-dollar credits generated from client brokerage commissions because we do not have to directly pay for the services obtained therewith. This benefit may give us an incentive to select executing broker/dealers based on our interest in receiving the research related products and services rather than obtaining most favorable execution for our clients. We believe this is not that case, as under our arrangements we do not cause clients to pay commissions in excess of the normal market-driven commission rates.

The research related products and services obtained with soft-dollar credits benefits our overall research process as opposed to any specific portfolio or product. Subsequently, all of our clients benefit from the expanded research capabilities obtained through soft-dollar credits and cannot be allocated specifically for the benefit of any individual client.

The process for allocating trades amongst our various broker/dealers is driven by our desire to seek best execution, the capabilities of the individual broker/dealers (in general and in relation to the specific trade being contemplated), and the constraints and requirements of our client's custodial selection.

#### *Referrals and Directed Brokerage*

Rushmore does not direct brokerage to specific broker/dealers in consideration of client referrals.

A vast majority of the clients that retain Rushmore's services already have an existing broker/dealer or custodial relationship. Many of these relationships are the result of the client's participation in a broker/dealer or Investment Advisor sponsored platform or wrap-fee program. As a general practice, we are willing to work with any client's existing custodial relationship and do not make specific broker/dealer or custodian recommendations. If requested, we will provide clients with a listing of the broker/dealers and custodians utilized by us at the time of the request.

In addition to the accommodation of existing client brokerage and custodial relationships, Rushmore will accept the designated or directed brokerage requests of our clients. When a client directs brokerage to a particular broker/dealer, including in a wrap-fee arrangement, that client may be foregoing certain benefits (including lower commission costs or greater reliability in executing orders) which might be obtained from other broker/dealers for such services. In such instances, we are not able to negotiate brokerage commission with respect to specific transactions executed and we are unable to "batch" such transactions with other RIA clients to achieve savings on execution costs.

### *Trade Aggregation*

As a general practice, Rushmore aggregates client trades whenever possible. It is our belief that trade aggregation is a vital component of best execution and helps ensure that all clients are treated fairly in trade allocation.

## **Item 13 - Review of Accounts**

Generally, clients will select more than one of our portfolio offerings depending on specific investment objectives and risk tolerance. The circumstances in which a client comes to Rushmore, either direct separate account or indirect platform based, determines the level of service and amount of interaction we have with each individual client. If a client is an indirect client of Rushmore's (ie...Platform based), the introducing broker and the client will be responsible for the selection of the portfolios to participate in. If the client is an institutional client, such as a large corporation or pension plan, the client will generally use the services of a consultant to select which of our portfolio offerings to participate in.

For individual direct clients, a representative of Rushmore's Private Client Group will meet with the client at the beginning of the relationship to assist in determining which of our portfolio offerings most fit the client's needs. Factors considered in this decision include items such as age, wealth, risk tolerance and specific investment objectives. Each quarter, direct clients receive a portfolio review which consists of a letter written by our investment committee and reports providing details of their portfolio. Additional reporting is available to meet specific client needs.

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

Rushmore does not accept nor provide gifts or awards in any form to referring brokers, firms, agents or individuals.

In certain circumstances, Rushmore may compensate third parties for client referrals. These arrangements are commonly referred to as "Solicitors Agreements." Compensation under these arrangements shall be a percentage of the collected management fees for the referred client accounts. In these cases, the client will be notified of such arrangement, including the amount of fee to be directed to the referring party. In the event solicitors are utilized, we will ensure that the referring entity and/or individual is appropriately licensed, and that the referral arrangement is

conducted in full compliance with applicable state and federal regulations. Presently, we have 4 legacy solicitor agreements in force, details of which are below.

Rushmore manages accounts which originated as referrals from Charles Schwab & Co., Inc. (“Schwab”) through RIA’s participation in the Schwab Advisor Network® (“the Service”). Although Rushmore no longer actively participates in the Service, we continue to pay residual referral fees on those client accounts originated by the Service. Schwab is a broker/dealer independent of and unaffiliated with Rushmore. Schwab does not supervise Rushmore and has no responsibility for Rushmore's management of clients’ portfolios or other advice and services.

Rushmore manages accounts which originated as referrals from TD Ameritrade, Inc. ("TD Ameritrade") through RIA’s participation in the TD Ameritrade AdvisorDirect program (the "referral program"). Although Rushmore no longer actively participates in the referral program, we continue to pay residual referral fees on those client accounts originated by the referral program. TD Ameritrade is a broker/dealer independent of and unaffiliated with Rushmore. TD Ameritrade does not supervise Rushmore and has no responsibility for Rushmore's management of clients’ portfolios or other advice or services.

Rushmore maintains legacy referral agreements with 3 independent brokers.

## **Item 15 - Custody**

The SEC definition of Custody states that if an advisor “holds, directly or indirectly, client funds or securities or has the authority to obtain possession of them” then an advisor is deemed to have custody of client assets. In certain circumstances, and in accordance with a limited power of attorney executed by our clients, Rushmore has the ability to direct debit fees from client accounts. This authority, although limited, means that Rushmore is deemed to have custody in these circumstances. Irrespective of this designation, all client accounts managed by Rushmore are held with a qualified custodian and at no time do we have physical possession of client assets. Clients will receive account statements directly from their custodian at least quarterly, and we urge our clients to review these statements regularly to insure accuracy. For purposes of review and client discussions we prepare and deliver to clients account summaries from our internal records that show holdings and realized / unrealized gains and losses. We advise our clients to check these reports against their custodial account statements to ensure that there are no material discrepancies.

## **Item 16 - Investment Discretion**

Through Rushmore's separate managed account services, we maintain sole investment discretion over client accounts. Clients are required to execute an investment advisory agreement that, among other things, grants us the authority to manage their assets on a discretionary basis. Additionally, clients provide their account custodian with an executed Limited Power-of-Attorney which grants us some or all of the following authority: securities trading, fee debit processing and funds disbursement to accounts with identical registrations. These documents provide Rushmore with the authority to conduct transactions on the client's behalf without prior notification.

Clients that wish to restrict us from investing their assets in certain companies or types of companies should provide us with written instructions concerning these restrictions.

## **Item 17 - Voting Client Securities**

As a general practice, and unless specifically agreed to otherwise in writing, Rushmore is delegated the authority and responsibility to vote proxies on behalf of our clients through the execution of our investment advisory agreement. We believe that proxy voting is an integral part of our investment management process, and accordingly this process is conducted with the same degree of prudence and professionalism accorded any fiduciary or other obligation of an investment advisor. If authority has been granted to Rushmore to vote proxies on a client's behalf, clients are not able to direct our vote in a particular solicitation. At any time however, the authority granted to us may be rescinded via written request.

Rushmore has adopted Proxy Voting Policies and Procedures pursuant to SEC Rule 206(4)-6 that we believe are reasonably designed to ensure that proxies are voted in the best interest of our clients. To manage this process, we have retained the services of Institutional Shareholder Services (ISS) as a voting delegate. ISS has developed domestic and global Voting Guidelines designed to advance the interest of individual shareholders through the proxy voting process. Rushmore's policy is to vote in accordance with the recommendations of the applicable domestic or global ISS Voting Guidelines in affect at the time of voting.

In the event that a proxy related conflict of interest arises between Rushmore and a client, we will rely upon the ISS Policies, Procedures and Practices Regarding Potential Conflicts of Interest for a resolution. In any event, it is the desire of Rushmore to ensure that all proxies are voted in the best interest of the client.

## **Item 18 - Financial Information**

Rushmore does not require prepayment of fees 6 months or more in advance and no financial condition exists that would impair our ability to meet our contractual obligation to our clients. Rushmore has not been the subject of a bankruptcy petition at any time.

### **Additional Disclosures – Business Continuity Plan**

Rushmore maintains and tests on a periodic basis a business continuity plan which will enable us to continue operations and maintain communications with clients in the event of a variety of business disruptions. This plan is reviewed and updated annually. A client summary of the plan is provided to clients on an annual basis as well as upon request.

### **Additional Disclosures – Privacy Policy**

RIA is committed to keeping the personal information collected from our potential, current and former clients confidential and secure. The proper handling of personal information is one of our highest priorities. Our privacy policies and procedures are reviewed and updated annually. A Notice of Privacy Policy is provided to clients at least on an annual basis, as well as upon request.