

# **Scott Investment Advisors, L.P.**

## **Investment Adviser Brochure**

**S.C. Scott**  
**349 E Kelly Ave**  
**Mail: POB 1271**  
**Jackson, WY 83001**  
**307-529-0968**

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This brochure provides information about the qualifications and business practices of Scott Investment Advisors, L.P. (SIA, L.P.). Please contact S.C. or P.A. Hook if you have any questions regarding the contents of this brochure or email us at [steve@scottadvisors.com](mailto:steve@scottadvisors.com) or [pat@scottadvisors.com](mailto:pat@scottadvisors.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.

Additional information about SIA, L.P. is available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). This site may be searched for registered investment advisors according to a unique identifying number, known as a CRD number. The CRD number for SIA is 110466.

Note: The term “registered investment advisor” as referred to in this Brochure does not imply a certain level of skill or training.

### **Material Changes**

**None**

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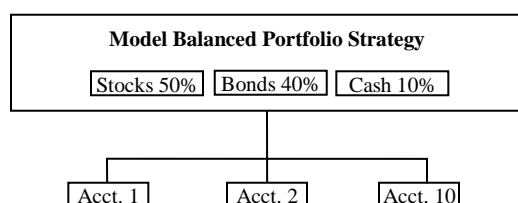
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## 1. Advisory Business

Scott Investment Advisors, L.P. (hereafter referred to as SIA, L.P.) provides full discretionary portfolio management. SIA will trade the full spectrum of stocks, bonds, money market funds, Exchange Traded Funds (ETF's) and Closed End Funds (CEF's) to implement its various investment strategies (depending on the account type). SIA, L.P. has been in business since July 1997 and began offering its investment services in June 2000 as a Registered Investment Adviser. The Principal owner is ScottAdvisors.com, Inc (91%) which is owned indirectly by S.C. Scott and J. Curry Scott.

### 1.1 Type of Service

SIA, L.P. offers investment services that consist of 6 portfolio strategies. Each has different policies and guidelines with different objectives. The risk return characteristics are designed to be symmetrical, ranging from lower risk to higher. Each account is traded and maintained as a separate account. Trading windows are established twice a day when all trades are aggregated and executed together. The majority of trades (purchases and sells) are made through cross-trading at the executing broker while at times a few others may be routed to various exchanges. This is to lower cost and receive best execution. Within each strategy, decisions are made to replace securities, rebalance the portfolio mix, and execute portfolio allocations. All portfolio trades will be executed at the same time, eliminating bias and conflicts. A "model" portfolio structure serves as the basis for initiating these actions.



SIA, L.P. utilizes the services of FOLIO, Inc. as its clearing and execution broker-dealer. All accounts are held in custody at FOLIO, Inc. SIA, L.P. has no affiliation with FOLIO, Inc., which can be found at <http://www.folioinstitutional.com>. Client accounts are opened and maintained in their name. Through the investment advisory agreement the client grants SIA, L.P. the right to access their account and manage the investments within their account. SIA, L.P. charges fees and is paid quarterly based on the ending market value of each calendar quarter in advance as described in detail later in this brochure. SIA, L.P.'s portfolio management approach utilizes elements of both top down and bottom up analysis in its decision-making. SIA, L.P. has developed a unique highly quantitative (mathematical) decision matrix format for evaluation that also integrates fundamental capital market and economic expectations into the process. During almost four decades the Managing General Partner has been a pioneer and expert in Portfolio Overlay (asset allocation) Management and has continued to advance the work since forming SIA, L.P. The Firm will invest in a broad spectrum of diverse securities in accordance with the policy guidelines of the individual strategies. This methodology is expected to add to mean returns while limiting volatility relative to the benchmarks that define each strategy.

### *1.2 Individual Client Preferences*

SIA, L.P. has elected to develop a broad range (defined by risk) of investment strategies from fixed income to global growth. Each strategy has customized policies, guidelines, and constraints on concentration. Each prospective client is required to complete a comprehensive profile. The profile has been scored to permit the client to select one (1) or a combination of the 6 portfolio strategies called the SAM Portfolio Strategies that are best matched with the results of their profile. Those falling outside the scoring parameters are rejected. Should clients require special conditions not included in the 6 portfolio strategies they also would be rejected. SIA, L.P. however will permit non-SAM securities to be held in a client's overall account as a transition position until integrated into the SAM Portfolios. There are unique circumstances in which non-SAM securities may be held on non-discretionary basis as an accommodation to the client; however none exist at present.

### *1.3 Wrap Fees*

SIA, L.P. bundles the cost for investment advice, custody, execution, brokerage commissions and reporting services in a single contract for a single fee. The fee is a flat fee with tiered breakpoints based on the market value of the assets at the end of each quarter. The fees are discussed in detail in the next section. SIA, L.P. shares in the overall fees billed to the client each quarter with FOLIO, Inc. The allocation of the fees between SIA, L.P. and FOLIO, Inc. will vary depending on the size of the individual account.

### *1.4 Account Size*

SIA, L.P. has designed its platform, fees schedule and investment approach to accommodate investor profiles that are best matched with the SAM Portfolios. As a result we will accept any size portfolio. Among smaller investors the minimum fee thus defines the threshold level. Any account below \$20,000 with no future additions represents a fee level that may be impractical for most investors.

### *1.5 Types of Accounts*

The investment advisory agreement outlining SIA, L.P.'s portfolio management services requires full discretion. Total assets as of October 31, 2013 are \$4,500,000. SIA, L.P. also provides advice and consults on assets that are not under its direct control nor included in Assets Under Management as filed with the Firm's ADV. Such non-discretionary assets are approximately \$25,000,000. These assets are not subject to the schedules below but are services billed on a fixed fee basis (reference 2.1). The consultative engagements include but are not limited to internal expertise in the areas of manager selection, professional witness testimony, asset and security research, real estate and lease analysis, financial restructuring and planning, credit analysis, capital budgeting and mergers and acquisitions.

## **2. Fees and Compensation**

### *2.1 Advisory Service Fees*

SIA, L.P. bundles the cost for investment advice, custody, execution, brokerage commissions and reporting services into a single contract for a single fee. The fee is a flat fee with tiered

breakpoints based on the market value of the assets at the end of each quarter. The fees are detailed in the chart of fees below. SIA, L.P. shares in the overall fees billed to the client each quarter with FOLIOfn, Inc. is the parent company and platform manager, broker-dealer and custodian of the assets. The allocation of the fees between SIA, L.P. and FOLIOfn, Inc. will vary depending on the size of the individual account. The fees are billed quarterly in advance based on the ending market value of assets according to the schedule below and are not negotiable.

### SAM Management, SAM Management 1, SAM Management Plus

| Ann. Fee | On Asset Above  | Up to Assets |
|----------|---|--------------|
| 1.90%    | \$15,790 <sup>1</sup> ; 47,369 <sup>2</sup> ; \$75,000 <sup>3</sup> | \$249,999    |
| 1.50%    | \$249,999   | \$499,999    |
| 1.30%    | \$499,000   | \$999,999    |
| 1.00%    | \$999,999   | \$2,999,999  |
| 0.90%    | \$2,999,999   | And Above    |

<sup>1</sup> SAM Management has a \$300 annual minimum fee

<sup>2</sup> SAM Management Plus has a \$900 annual minimum fee

<sup>3</sup> SAM Management 1 has a \$1,425.00 annual minimum fee

Institutional tax-exempt clients may be eligible for the following two fee schedules depending on a variety of factors including size, plan participation, consultation and reporting. In some cases the tiered requirement to reach the last breakpoint will be waived. A minimum fee of \$300 annually applies to SAM Institutional while a \$600 minimum applies to SAM Institutional 1.

### SAM Institutional

| Ann. Fees | On Asset Above | Up to Assets |
|-----------|----------------|--------------|
| 1.40%     | \$21,429       | \$999,999    |
| 0.90%     | \$1,000,000    | \$9,999,999  |
| 0.70%     | \$10,000,000   | \$24,999,999 |
| 0.50%     | \$24,999,999   |              |

### SAM Institutional I

| Annual Fee | On Asset Above | Up to Assets |
|------------|----------------|--------------|
| 0.90%      | \$66,667       | \$199,999    |
| 0.80%      | \$200,000      | \$499,999    |
| 0.70%      | \$500,000      |              |

While we believe ScottAdvisors, L.P.'s wrap fees are lower than the average of other investment advisers for comparable services, there may be some investment advisers who can provide comparable types of services at a lower fee rate. Fees charged for consultation advice as referenced in 1.5, is based on work performed on an hourly basis. Depending on the complexity, degree of expertise required and the anticipated duration of the engagement, such fees will range from \$175 to \$500 per hour.

## *2.2 Method of Fee Calculation*

SIA, L.P. elects to deduct management fees directly from each account. Should a client have more than one account under a single social security number (i.e. the account qualifies as a Uniform Gift To Minors), the accounts are combined when calculating the breakpoint fee level that applies. The fees will be deducted within the first 3 weeks following the end of each calendar quarter. Fees are billed in advance. Clients transferring assets out of SIA, L.P. after advanced fees have been paid may receive a pro-rata refund based on the number of calendar days remaining during the quarter of departure less a termination fee of .20% if occurring within the first 5 years of their agreement.

## *2.3 Other Fees and Commissions*

No employees are compensated for security trading or sales related expenses connected to any products. There are from time to time small annual maintenance fees by the custodian of qualified plans (ERISA, IRA, 529 & Roth), fees by governmental agencies and premium charges for specialized trades (limit orders, non-window securities etc) that are deducted from the account and separate from the wrap fee charges. In addition, there may be fees charged for special or one-time services including account closure fees, wire closure fees, wire transfers, and special requests made by the client. These fees, if they occur, are small and infrequent. A list of those can be found on the broker-dealer and custodian <http://www.folioinstitutional.com>.

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

No such fees or contracts are offered.

## **4. Types of Clients**

### *3.1 Client Descriptions*

SIA, L.P. has a client base that consists of qualified corporate plans, individual IRA's, Trust accounts, personal and corporate taxable accounts.

### *3.2 Fee Descriptions*

In order to eliminate any conflicts of interest, SIA L.P. does not offer either performance-based fee services or side-by-side management agreements. All management personnel own the same SAM Portfolio Strategies offered to the entire client base. No special treatment is given to company personnel that isn't offered to the regular client base.

## **5. Methods of Analysis**

### *4.1 Investment Strategies and Risk Assessments*

As described in sections (1.1) and (1.2), SIA offers 6 pre-determined model portfolios, each having their own investment policy, constraints, and guidelines. Investors are provided a

professionally constructed profile to complete which is scored for both explicit and implied risk contained within the questions. The score is matched to the individual SAM Portfolio strategies based on risk tolerance. New clients are provided material detailing each strategy characterizing the degree of risk, appropriate time horizon and the expected objective. Written disclaimers indicate that investment results involving risk and returns are not guaranteed.

#### *4.2 Types of Analysis*

SIA, L.P. principally purchases ETF's (as described in Sec. 1 above) but will occasionally use closed-end funds if ETF's are not available in a specific asset class, sector or region. SIA, L.P. developed and utilizes an application in the field of multi-variant optimization technology. Simply put it is a quantitative methodology of identifying the best risk characteristics contained in a basket of securities given the policy guidelines and objectives of a particular portfolio. The firm conducts both fundamental and quantitative analysis on the securities represented in each SAM Strategy, and a top down assessment of the macro conditions that the Firm expects to be present in the short to intermediate-term period ahead. This approach does not rely on high frequency trading and thus is focused on long term capital gains and attempts to minimize taxable income and gains for taxable accounts. SIA, L.P. encourages its clients to engage in self-empowerment and provides on-going education by distributing research and articles it publishes for the client base.

### **6. Disciplinary Information**

SIA, L.P. has never been the subject of disciplinary action by any governmental agency or Self Regulatory Organization. No personnel have ever been the subject of any such action either under the employment of SIA, L.P. or with prior employers.

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

SIA, L.P. has no industry affiliations or other financial industry activities outside the Company.

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

#### *7.1 Code of Ethics*

SIA promotes a high standard of ethics, integrity, and professional excellence throughout its practices, plus adheres to its own formally established detailed policies and procedures. In devising its policies, the Advisors has adopted the CFA Institute's "Code of Professional Conduct and the Code of Ethics". A client or prospective client may request copies of this CFA Institute publication as well as for the SIA, L.P. "Code of Ethics and Professional Standards of the Advisor". Broadly speaking our code of ethics includes (1) placing the integrity of the profession and the interests of clients above an Associate's own interest, (2) acting with integrity, competence, and respect, and (3) continuing to improve our professional competence.

#### *7.2 Participation of Interest in Client Transactions*

SIA, L.P. does not recommend to clients, or buys or sells for client accounts, securities in which any Associate of the firm has a material financial interest. The Firm, its officers, employees, and family members generally hold the same securities the Firm buys for client accounts over which it has discretionary investment authority. However, to accommodate diverse individual circumstances and investment goals, the Firm and its associated persons may at times buy for



themselves and for certain clients (i.e. having a particular investment strategy) the same securities that are being sold for other clients, and vice versa. The compliance officer conducts a review of all securities transactions by the Firm's officers and associates on a quarterly basis.

## **9. Brokerage Practices**

SIA, L.P. sponsors a single wrap program for which the Broker/Dealer is always FOLIOfn, Inc. There are no separate brokers fees or trading costs apart from the wrap fee. SIA, L.P. is not a party to soft dollar benefits since FOLIO, Inc. does not engage in them. SIA, L.P. does not receive client referrals as a result of selecting or recommending any broker-dealer. Clients are not permitted to specify particular brokerages for which to execute trades through. It should be noted that SIA, L.P. in itself, receives no material benefit, either directly or indirectly, as a result of routing trades through FOLIO, Inc.

## **10. Review of Accounts**

SIA, L.P.'s portfolio managers review all client accounts on a weekly basis to make sure they remain in congruence with the portfolio models. The models themselves are also reviewed at least weekly as part of an ongoing process of analysis to ensure that model objectives are being met and responding to changing market conditions appropriately. Changes are made to the model (resulting in changes to client corresponding portfolios) if it is concluded that longer – term performance would likely be improved through changing the investment mix. Besides the near-term portfolio analysis, a meeting of SIA, L.P.'s portfolio managers occurs at least quarterly where any recommended portfolio modifications reflecting the current economic and market climate are discussed. Portfolios are often reallocated as a result of the quarterly meetings. Other factors that trigger reviews are: a) follow-up analysis subsequent to portfolio reallocations, b) significant or sudden changes in market conditions or in the world economic environment, c) changes in the portfolio manager's assessment of particular securities as appropriate for an underlying portfolio strategy, d) awareness of a material change in a client's circumstances or investment objective. In addition, a review is conducted after the end of each month with regard to investment performance as well as the propriety of individual account statements. While client account statements are sent to clients by the Broker/Dealer (FOLIO Institutional) on a monthly basis, they also receive performance information along with a written analysis by SIA, L.P. on a quarterly basis.

Upon request, SIA, L.P. may provide the client additional reports showing the industry and sector diversification of a portfolio, degree of risk (Standard Deviation), and other portfolio information. In addition, through meetings, telephone calls, and letters, SIA, L.P. regularly keeps clients informed of the investment policy and strategy for achieving clients' investment objectives. The nature and frequency of these reports and other communications are determined primarily by the particular needs of each client.

## **11. Client Referrals and Other Compensation**

SIA, L.P. does not compensate individuals or organizations for client referrals, nor have any arrangements for receiving compensation for referring clients to other advisors. The Company may engage such persons in the future however, while intending to maintain its current fee

schedule. Under the current wrap program any compensation for referring services by a third independent person(s) to SIA would be done so without additional costs to the client.

## **12. Custody**

SIA, L.P. does not take custody of client funds or securities.

## **13. Investment Discretion**

The client completes an account application which provides SIA, L.P. the discretionary authority to manage securities accounts on their behalf. In addition, the client completes a Customer Agreement form with FOLIO, Inc. (the Broker/Dealer servicing the Wrap Program) that certifies SIA, L.P. has investment discretion and trading authority over all assets held. Once this has been established, the client authorizes the transfer of assets into the new account.

## **14. Portfolio Management**

### *13.1) Basis for Portfolio Manager Selection*

Other than the two permanent portfolio managers attached to SIA, L.P., no other portfolio managers are utilized.

### *13.2) Related Persons Acting as Portfolio Manager*

There are no related persons acting for SIA, L.P. as a portfolio manager.

### *13.3) Client Information Provided to Portfolio Managers*

SIA, L.P. is the portfolio manager. Each client's profile strategy selection is reviewed by both portfolio managers prior to initiating the first purchases. Clients are encouraged to update information with SIA, L.P. should major changes in family finances potentially have an impact on the invested assets.

### *13.4) Client Contact with Portfolio Manager*

SIA, L.P. does not currently have any restrictions placed on its clients' ability to contact and consult with their portfolio manager.

## **15. Voting Client Securities**

SIA, L.P. does not accept authority to vote client securities. Instead, clients are notified via email of their proxies or other solicitations directly from FOLIO, Inc., their Broker/Dealer and Custodian under the Firm's Wrap Program. However the door to SIA, L.P. is always open to its clients who might wish to discuss particular issues up for shareholder vote.

## **16. Financial Information**

No disclosure of financial information regarding SIA, L.P. is required since the Firm does not have custody of client funds and does not require prepayment of fees 6 months or more in advance. No officers of the Firm have been the subject of a bankruptcy petition at any time during the past 10 years.