

**I. Cover Page**

**Part 2A of Form ADV  
3/31/2011**

**Sterneck Capital Management, LLC**

4510 Belleview, Ste 204  
Kansas City, MO 64145

816-531-2254  
sterneckcapital.com

This brochure provides information about the qualifications and business practices of Sterneck Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us 816-531-2254, or [info@sterneckcapital.com](mailto:info@sterneckcapital.com). The information in this brochure has not been approved or certified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Sterneck Capital Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sterneck Capital is a SEC Registered Investment Advisor (RIA). The RIA status does not imply a certain level of skill or training.

## II. Material Changes

### **Material changes to this ADV Part 2A:**

3/31/2011 – On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that all advisors provide to clients as required by SEC Rules. This Brochure dated 01/01/2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

### III. Table of Contents

#### Table of Contents

I.	Cover Page .....	1
II.	Material Changes .....	2
III.	Table of Contents .....	3
IV.	Advisory Business.....	5
A.	The Firm .....	5
B.	Services .....	5
C.	Tailored Service.....	5
D.	Wrap Fee Programs .....	6
E.	Client Assets Under Management .....	6
V.	Fees and Compensation.....	6
A.	Description .....	6
B.	Billing Method.....	7
C.	Other Fees.....	7
D.	Fees Paid in Advance.....	7
E.	Sales Commission.....	8
VI.	Performance Based Fees and Side-By-Side Management .....	8
VII.	Types of Clients .....	9
VIII.	Methods of Analysis, Investment Strategies and Risk of Loss .....	9
A.	Methods, Strategies and Risk.....	9
B.	Material Risk .....	10
C.	Security Types .....	10
IX.	Disciplinary Information.....	10
A.	Criminal or Civil Action.....	10
B.	Administrative Proceeding Before the SEC.....	11
X.	Other Financial Industry Activities and Affiliations.....	11
A.	Broker Deal / Registered Representative .....	11
B.	Futures Commission Merchant or Commodity Pool Operator.....	11
C.	Material Relationships .....	11

D.	Selecting Other Investment Advisers.....	13
XI.	Code of Ethics, Interest in Client Transactions & Personal Trading.....	13
A.	Code of Ethics Summary .....	13
B.	Buys and Sells for Client in which SCM has a Material Financial Interest .....	14
C.	Investing in Same Securities .....	14
D.	Intraday Trades .....	15
XII.	Brokerage Practices .....	15
A.	Broker-Dealer Selection Practices.....	15
B.	Aggregate Purchase and Sales .....	17
XIII.	Review of Accounts.....	17
A.	Frequency and Nature .....	17
B.	Non-Periodic Reviews .....	17
C.	Frequency of Reporting .....	17
XIV.	Client Referrals and Other Compensation .....	18
A.	Economic Benefits to SCM .....	18
B.	Compensation from SCM .....	19
XV.	Custody .....	20
XVI.	Investment Discretion.....	20
XVII.	Voting Client Securities .....	20
XVIII.	Financial Information .....	20
A.	Prepayment of management fees .....	20
B.	Financial Condition.....	21
C.	Bankruptcy Petition .....	21
XIX.	Requirements for State-Registered Advisers.....	21

## IV. Advisory Business

### A. The Firm

Sterneck Capital Management, LLC (hereinafter “SCM” the “Investment Manager” or “Advisor”) has been in business since 1989 and is entirely owned by Frank Sterneck. SCM offers investment advice relative to the purchase and sale of securities in the management of investment portfolios.

### B. Services

SCM provides advisory services for individual and joint accounts, trusts, IRAs, 401Ks, and GRATs. SCM is also the General Manager of Sterneck Value & Opportunity, LP, a private partnership which is made available only to accredited investors.

SCM defines itself as multi-cap, value manager with a broad expertise in the equity, options and fixed income markets. The firm relies on fundamental analysis and to a lesser extent quantitative analysis, believing fundamentally sound companies are good to own, but should be purchased at the right price. Generally, SCM operates with a long-term focus and often buys on weakness and sells on strength.

Within the broad the equity and fixed income asset classes, SCM has many tools from which to choose. Each security type listed below has associated risk and return characteristics. Each is weighed by Sterneck Capital when constructing and managing a diversified portfolio designed to realize a client’s articulated goals while reducing portfolio risk.

The types of securities frequently considered by Sterneck Capital:

Equity Oriented	Fixed Income Oriented
<ul style="list-style-type: none"><li>• Common Stock</li><li>• Preferred Stock</li><li>• Master Limited Partnerships (MLPs)</li><li>• Real Estate Investment Trusts (REITs)</li><li>• Open-Ended Mutual Funds</li><li>• Closed-Ended Mutual Funds</li><li>• Exchange Traded Funds (ETFs)</li><li>• Call/Put Options</li><li>• Private Placements</li></ul>	<ul style="list-style-type: none"><li>• Corporate Bonds</li><li>• Municipal Bonds</li><li>• Agency Bonds</li><li>• Mortgage-Backed Notes</li><li>• Index-Linked Notes</li></ul>

*\*Securities listed may not be appropriate for all clients*

### C. Tailored Service

Prior to initiating an investment program, Sterneck Capital Management, LLC attempts to learn each client’s total net worth, liquid net worth, marital status, investment experience, investment time horizon, financial goals and objectives and willingness and ability to tolerate risk. Clients have the ability to specify securities or asset classes they do not want to own.

Within this strategic framework, a target asset allocation will be established. Once agreed upon, Sterneck Capital will begin the tactical implementation by using a value-oriented investment style to identify and purchase securities. This value focus transcends size, sector and capital structure. It is an effort focused on identifying securities where risk-adjusted returns appear favorable in an absolute sense and/or relative to historic metrics.

With proper agreements in place between SCM and client, and brokerage firm and client, SCM has full authority in its discretion to purchase, sell, tender, exchange, convert or exercise and otherwise acquire or dispose of and trade and deal in or with securities described in Part II, Item 3 of Form ADV, to sell short, on margin or otherwise, and to cover such short sales, to write, buy and sell options on securities, and to borrow funds from the brokerage firm with which the investment advisory clients' accounts are maintained for the purpose of trading on margin and to execute such assignments, instruments of transfer, orders and other instruments and to enter into such agreements as may be necessary and proper in connection with the management of Sterneck Capital Management, LLC's investment advisory clients' portfolios.

#### **D. Wrap Fee Programs**

Not applicable - Sterneck Capital Management has no Wrap Fee Program

#### **E. Client Assets Under Management**

Client assets under management as of 12/31/2010:

<b>Asset Category</b>	<b>Assets Under Management</b>
Discretionary	\$ 240,780,727
Non-Discretionary	\$ 7,079,669

### **V. Fees and Compensation**

#### **A. Description**

SCM is compensated for advisory services through asset-based management fee, flat-fee rate, and/or performance-based fees.

Annual asset-based fees range from 0.3% to 1.75%, with a 1% management fee being most typical. Certain consulting arrangements are performed on a flat-fee basis, with fees commensurate to the agreed upon scope of service. A performance-based fee is applicable to Sterneck Value & Opportunity, LP, a private partnership available to accredited investors only.

Management fees are subject to negotiation. The management fee outlined in each client's Management Agreement is largely a factor of the household's assets under management, investment mandate, and continuity of former fee arrangements. In cases where a purchase agreement with another Investment Advisors resulted in the transition of client relationships to

Sterneck Capital Management, the clients' management fee did not change. In some cases, this results in clients paying fees at the high end of the management fee scale.

## **B. Billing Method**

Each client has a choice whether to pay their management fees can paid via check or have it deducted directly from the account. Clients are billed quarterly as percent of the net assets of the account at the end of each fiscal quarter, as adjusted for contributions and withdrawals made during the quarter. Fees may be assessed on all assets under management, including securities, cash and money market balances. Margin debit balances do not reduce the value of assets under management. Such fees are payable within ten days following the end of each fiscal quarter and shall be prorated for periods less than a full calendar quarter.

## **C. Other Fees**

Clients may experience other indirect fees such as:

*Transaction fees* – Prime Brokers charge a transaction fee for processing the purchase or sale of a security in the client account. The fee will vary based on the security type being transacted.

*Mutual fund management fees* – SCM may invest client portfolio assets in mutual funds or exchange traded funds ("ETFs"). Mutual funds and ETFs have certain underlying expenses, detailed in the prospectuses provided to clients, borne indirectly by their owners. To the extent that SCM charges a direct fee to the portfolio (or its owner), such a fee is in addition to the indirect cost of owning a mutual fund and/or ETF.

*Executing Broker commission (equity)*-- For equity transactions effected through Executing Brokers, client accounts generally pay \$.06 per share plus a ticket charge to the Prime Broker. For transactions effected at the Prime Broker, client accounts also pay the transaction fee then current at their Prime Broker.

*Executing broker commission (bonds)*—For bond transactions effected through Executing Brokers, the security price offered by the Executing Broker includes a commission payable to the broker. For transactions effected at the Prime Broker, client accounts also pay the transaction fee then current at their Prime Broker.

SCM receives no form of compensation other than the management fee outlined in each client's management agreement. SCM has no vested interest in any of these other fees, other than taking advantage of research and supply for the benefit of client portfolios. All broker-dealers selected by SCM to act as either Prime Broker or Executing Broker for its clients' accounts are unaffiliated third parties.

## **D. Fees Paid in Advance**

Individually managed accounts pay their management fee in arrears, based on the value of the assets at the end of the quarter (see section V.B. for more detail). The only account paying management fees in advance is Sterneck Value & Opportunity, LP, a private partnership for

accredited investors. The offering document limits capital flows to the end of each quarter, thus the need to prorate fees for a partial quarter is not applicable.

#### **E. Sales Commission**

Not applicable – SCM receives no form of compensation resembling a sales commission.

### **VI. Performance Based Fees and Side-By-Side Management**

SCM is the General Partner of Sterneck Value & Opportunity, LP (SVO), a private partnership available only to accredited investors. In addition to the management fee SCM receives a performance incentive fee. Up to 20% of the annual net profits (allocation is subject to each LP's "highwater mark") of the limited partnership are allocated to the general partner, SCM. The amount of net profits is determined by, and paid following, an annual independent audit performed by Certified Public Accountants.

To the extent that SCM may enter into "incentive based advisory contracts", any such contract will be consistent with Rule 205-3 under the Investment Advisers Act of 1940.

A potential conflict of interest exists in the fact that this performance-based fee account is managed side-by-side with client accounts, and one account may be favored over the other. This conflict is mitigated in part through transacting purchases in the average-price account, so all clients, and SVO receive the same price when transacting the same security on the same day. Further, industry regulations require all trades to be allocated to accounts by close of business each day. In conjunction with average pricing, this limits the possibility of price scalping.

To address conflicts associated with trading ahead of clients or buying after a sale, SVO is subject to the 9-day blackout periods and short-term trading policies outlined in the SCM Code of Ethics (Code of Ethics available upon request).

Finally, most of the securities purchased across accounts are widely held securities that have high trade volume. Thinly traded securities typically have a risk profile making them only suitable to a small number of accounts that in need of higher-risk securities. In other words, even with thinly traded securities, rationing is not a common issue. Note: As policy, SVO is the only account managed by SCM that participates in new issues.



## VII. Types of Clients

The types of clients SCM generally provides advice to are individuals, trusts and SVO (private partnership). There is no stated minimum account size. One must be an accredited investor to invest in SVO, and the minimum investment is \$250,000, though the General Partner has the ability to change this from time-to-time.

## VIII. Methods of Analysis, Investment Strategies and Risk of Loss

### A. Methods, Strategies and Risk

Sterneck Capital has defined a security selection process centered with the SCM Investment Committee at the center. The output of the selection process is specific buy/sell/hold decision. The inputs for the process are the varying sources of information and tools that are used by the Investment Committee in making their buy/sell/hold decisions. These sources of information are equity screens, industry journals/periodicals, SCM independent research, sales brokers, and watch lists.

SCM applies a value-focus when evaluating the merits of individual securities and ideas. The committee typically focuses on identifying securities and sectors believed to be temporarily mispriced. Often, this leads to the committee to out-of-favor asset class and industry sectors. Likewise, in euphoric phase of a market cycle, SCM maintains a focus on realistic security valuations.

This contrarian approach requires independent thinking. The committee has the freedom to construct portfolios designed to realize clients' articulated goals while attempting to reduce portfolio risk.

Investing in securities carries an inherent risk of loss that investors must be prepared to bear. The committee recognizes *diversification* and *discipline* are two keys to successful portfolio design that can dampen risk to the portfolio. Diversification is a tool rooted in humility, knowing that future market events are unpredictable, and that prudent investment behavior is to diversify asset classes and holdings so that no single security selection determines success or failure. Discipline is a characteristic that prompts the committee to continuously and dispassionately re-examine prior investment decisions in light of new information.

## B. Material Risk

Sterneck Capital Management believes diversification is a key to dampening risk (volatility) within a portfolio. Larger accounts typically are comprised of 30 or more individual equities, with 15-30% turnover. Individual bond positions typically comprise no more than 5% of the portfolio. In practice, SCM uses mutual funds in smaller accounts in order to achieve a prudent level of diversification. It is not Sterneck Capital's practice to use margin in client accounts, though it is a tool made available to help cover short-term cash needs.

## C. Security Types

Sterneck Capital recommends a broad array of security types. For larger accounts, SCM does have a bias toward individual securities, whether it is specific companies or specific bonds. Singularly speaking, these represent non-diversified positions. Thus, the performance of any particular security can be significantly more volatile than the broad equity market.

The utilization of options also has inherent risks that can subject assets to great losses. The types of options strategies (buy-writes and covered calls) most commonly used by SCM represent hedging strategies designed to dampen risk.

# IX. Disciplinary Information

## A. Criminal or Civil Action

### 1. *Convicted, Guilty, No Contest*

**Not applicable – Sterneck Capital has had no incident** involving the firm or management persons in which resulted in a conviction to a felony, misdemeanor, or conspiracy involving investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion.

### 2. *Named Subject*

**Not applicable – Sterneck Capital has had no incident** in which the firm or management persons has been the named subject of a pending criminal proceeding that involved an investment related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or conspiracy to commit any of these offenses.

### 3. *Violation of Statute or Regulation*

**Not applicable – Sterneck Capital has had no incident** in which the firm or management persons were found to have been involved in a violation of an investment-related statute or regulation.

#### *4. Subject of*

**Not applicable – Sterneck Capital has had no incident** in which the firm or management persons were the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, your firm or management person from engaging in any investment-related activity, or from violating any investment-related statute, rule or order

### **B. Administrative Proceeding Before the SEC**

#### *1. Found to have Caused*

**Not applicable – Sterneck Capital has had no incident** in which the firm or management persons was found to have caused an investment-related business to lose its authorization to do business

#### *2. Found to have been Involved*

**Not applicable – Sterneck Capital has had no incident** in which the firm or management persons was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority a) denying, suspending, or revoking the authorization to act in an investment-related business; b) barring or suspending the association with an investment-related business; c) otherwise significantly limiting investment-related activities; or d) imposing a civil money penalty of more than \$2,500.

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

### **A. Broker Deal / Registered Representative**

Not applicable – Sterneck Capital and its management persons are not registered, nor are there any pending registrations, as a broker-dealer or registered representative of a broker-dealer.

### **B. Futures Commission Merchant or Commodity Pool Operator**

Not applicable – Sterneck Capital and its management persons are not registered, nor are there any pending registrations, as futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### **C. Material Relationships**

#### *General Statement*

From time to time, Sterneck Capital Management clients express the need for certain professional services, and SCM is in a position to refer clients to trusted accountants, lawyers, estate planners, and insurance agents, etc. Occasionally these professionals will refer clients to Sterneck Capital. There is no formal arrangement, nor is there any form of remuneration for such referrals, thus there is no material conflict of interest.

### ***1. Broker Dealers, Bond Dealers***

Sterneck Capital works with equity sales brokers, bond dealers and prime broker dealers to execute security transactions and to custody client assets. The cost of these services paid for pro-rata by the client, based on the transaction costs. (See section V.C. for more detail). In return, Sterneck Capital may receive research and use of technology systems and tools.

### ***2. Pooled Investment Vehicles***

Sterneck Capital routinely invests client assets in publicly traded mutual funds and closed-ended mutual funds, master limited partnerships, exchange traded funds, etc. These investments have their own underlying expense (see section V.C. for more detail). There is no material conflict of interest.

Sterneck Capital is the General Partner of Sterneck Value & Opportunity, LP, a private partnership available only to accredited investors. In addition to prime brokerage accounts, the partnership maintains a checking account held at a local bank. Funds can be issued to third-parties from this checking account, including payment of management fees to the General Partner. However, prior to payment of any management fee, an independent CPA firm ratifies the books and management fee calculation to ensure it is reasonably accurate. Additionally, the partnership undergoes an annual audit by a separate, national CPA firm. Any potential conflict of interest related to SVO is disclosed in this document (see section IV. for more detail).

Sterneck Capital is the Managing Member of SCM Energy Partners, a pooled investment vehicle formed to make specific investments in two energy related projects. As Managing Member Sterneck Capital oversees the preparation of annual K-1 for the members and corporate tax filings, facilitates distribution payments to the members, and selects the individuals to fill two board seats belonging to SCM Energy Partners, one of which is occupied by Edward Condon. Sterneck Capital can be replaced as the Manager of SCM Energy Partners with a vote by the members. Sterneck Capital receives no compensation as Managing Member, and Sterneck Capital, nor Edward Condon receives no compensation as board member. Additionally, SCM Energy Partners maintains a checking account for purposes of paying annual accounting expense. Funds can be issued to third-parties from this checking account. The entity undergoes an annual audit. There is no material conflict.

### ***3. Other Investment Adviser or Financial Planner***

Not applicable – see General Statement above for more detail.

### ***4. Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Advisor***

From time to time Sterneck Capital Management may invest client assets in investment vehicles that may have exposure in the futures markets and commodity derivatives. These investments are not common practice and typically reserved for clients who have a sophisticated understanding of risk.

### ***5. Banking or Thrift Institution***

Not applicable – see General Statement above for more detail.

#### ***6. Accountant or Accounting Firm***

Sterneck Capital works with an accountant for its own business, and engages with accounting and tax professionals for services related to Sterneck Value & Opportunity, LP and SCM Energy Partners, LLC. (See section X.C.2 for more detail, and see General Statement above). There is no material conflict.

#### ***7. Lawyer or Law Firm***

Sterneck Capital works with an lawyer for its own business, and occasionally engages with law professionals for services related to Sterneck Value & Opportunity, LP and SCM Energy Partners, LLC. (See section X.C.2 for more detail, and see General Statement above). There is no material conflict.

#### ***8. Insurance Company or Agency***

Not applicable – see General Statement above for more detail.

#### ***9. Pension Consultant***

Not applicable

#### ***10. Real Estate Broker or Dealer***

Not applicable – see General Statement above for more detail.

#### ***11. Sponsor or Syndicator of Limited Partnerships***

From time to time Sterneck Capital will evaluate non-public investment opportunities. These occasions have been infrequent, and often performed as a courtesy to clients and non-clients. Any such opportunity will have fee structures clearly defined for all potential investors, both the fees to the Manager of the non-public investment, and any management fee to be charged by Sterneck Capital Management. There is no material conflict.

### **D. Selecting Other Investment Advisers**

Not applicable – Sterneck Capital does not select nor recommend other investment advisers.

## **XI. Code of Ethics, Interest in Client Transactions & Personal Trading**

### **A. Code of Ethics Summary**

A copy of the Sterneck Capital Code of Ethics will be furnished to any client or prospective client upon request.

The Code of Ethics sets forth standards of conduct expected of Sterneck Capital Management, LLC (“the Firm”) personnel and address conflicts that arise from personal trading by personnel. The Code of Ethics will address, among other things, personal trading, gifts, the prohibition against the use of inside information and other situations where there is a possibility for conflicts of interest.

The ethical culture of the Firm is of critical importance and must be supported at the highest levels of our firm. The Code of Ethics is designed to:

- Protect the Firm's clients by deterring misconduct;
- Educate personnel regarding the Firm's expectations and the laws governing their conduct;
- Remind personnel that they are in a position of trust and must act with complete propriety at all times;
- Protect the reputation of the Firm;
- Guard against violation of the securities laws; and,
- Establish procedures for personnel to follow so that the Firm may determine whether its personnel are complying with the Firm's ethical principles

Honesty, integrity and professionalism are hallmarks of the Firm. The Firm maintains the highest standards of ethics and conduct in all of its business relationships. The Code of Business Conduct and Ethics covers a wide range of business practices and procedures and applies to all personnel in their conduct of the business and affairs of the Firm

The activities of any officer, director or personnel of the Firm will be governed by the following general principals: (1) honest and ethical conduct will be maintained in all personal securities transactions and such conduct will be in a manner that is consistent with the Code of Ethics thus avoiding or appropriately addressing any actual or potential conflict of interest or any abuse of a personnel's position of trust and responsibility, (2) personnel shall not take inappropriate advantage of their positions with the Firm, (3) personnel shall have a responsibility to maintain the confidentiality of the information concerning the identity of securities holdings and financial circumstances of all clients, and (4) independence in the investment decision-making process is paramount.

## **B. Buys and Sells for Client in which SCM has a Material Financial Interest**

As noted in Section V.A., SCM is the general partner of an investment-limited partnership, Sterneck Value & Opportunity, L.P. SCM offers limited partnership interests in Sterneck Value & Opportunity, L.P. to accredited investors under the terms and conditions specified in the partnership's Confidential Offering Memorandum. The Confidential Offering Memorandum is delivered to prospective limited partners of the investment-limited partnership. Among other things, the Confidential Offering Memorandum discloses potential conflicts of interest between SCM, its related persons and the prospective limited partner. Frank Sterneck makes himself available to discuss any potential conflicts of interest with prospective limited partners.

## **C. Investing in Same Securities**

Sterneck Capital and Sterneck Capital personnel do invest in the same securities that it recommends to clients. To address potential conflicts and to ensure fair treatment of all clients, Sterneck Capital's Code of Ethics requires:

- Intraday trades (buys and sells) impacting multiple accounts must be performed in the average-price account, ensuring all clients and SCM personnel receive the same price

- No short-term trading of securities in personal accounts (transacting in the same position in a 5-day period)
- No Code Person may purchase or sell a security within the seven (7) calendar days immediately before and after, including the same calendar day (fifteen days total) on which security is purchased in a client account. As previously noted, same day trades are allowable but must be performed in the average-price account. This black-out period applies only when transaction volume exceeds 5% of the market's average daily volume for the position.
- No participation in Initial Public Offerings in personal accounts
- All limit or private offerings must receive pre-clearance from Sterneck Capital's Chief Compliance Officer.
- The firm maintain a list of restricted securities, which are prohibited from being purchased or sold in personnel accounts
- Prohibition from participating in investment clubs

SCM personnel may seek pre-clearance from the Chief Compliance Officer if an exception is needed and the basis for the exception is fair and reasonable.

#### **D. Intraday Trades**

On an intraday basis, Sterneck Capital and Sterneck Capital personnel do invest in the same securities that it buys and sells for clients for clients. In these scenarios, all trades receive the average of the execution price.

The Code of Ethics prohibits Sterneck Capital personnel and clients from being on opposite sides of a trade.

## **XII. Brokerage Practices**

### **A. Broker-Dealer Selection Practices**

#### **1. Research and Other Soft Dollar Benefits**

- a) Sterneck Capital is a proponent of the Prime Brokerage system for those of its managed accounts which are Prime Brokerage eligible. Through this channel, both Prime Broker and Executing Brokers provide SCM with proprietary and third-party research, systems and tools, for which Sterneck Capital does pay.
- b) The Prime Broker typically recommended by SCM charges a competitive transaction expense for execution. This transaction expense, paid for by the client, is comparable to rates charged by other industry.

Using an Executing Broker, within the Prime Brokerage rubric, allows each account to directly pay an Executing Broker on a pro rata basis for the value of the research in which SCM participates for the client's benefit. This incremental may not result in the client receiving the best execution price.

SCM receives no form of compensation other than the management fee outlined in each client's management agreement. SCM has no vested interest in any of these other fees, other than taking advantage of research and supply for the benefit of client portfolios. All broker-dealers selected by SCM to act as either Prime Broker or Executing Broker for its clients' accounts are unaffiliated third parties.

For additional information see Section V.C.

- c) Clients may pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits. For additional information see Sections V.C and XII.A.1.b.
- d) From time-to-time, Sterneck Capital may purchase securities through Executing Brokers within the Prime Brokerage system. This is not common practice. Typically, scarcity is not a issue, thus any account eligible for Prime Brokerage can participate at SCM's discretion. As SCM policy, the only account eligible to participate in IPOs and new issues through an executing broker is Sterneck Value & Opportunity, LP. To avoid conflict, the General Partner of SVO, Sterneck Capital, is prohibited from participating, thus the General Partner is carved out of such participation.
- e) Types of products and services acquired with client brokerage commissions include equity research, trade publications, books, equity screening tools, access to new issues and IPOs, consulting advice, access to supplies of bonds and bond analysis.
- f) Sterneck Capital is contacted by executing brokers with research, analysis and/or securities to transact (bids). Most of the information is reviewed and quickly discarded. When the information is deemed useful by the SCM Investment Committee, SCM begins to determine which accounts should receive an allocation based on the investment mandate, and weighing the need for such exposure. With an allocation being determined and a total transaction quantity communicated to the broker, the trade is transacted and the Prime Broker is instructed as to which accounts to allocate the shares.

## ***2. Brokerage for Client Referrals***

- a) SCM participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. SCM receives some benefits from TD Ameritrade through its participation in the Program. (See the disclosure under Item 14. below.)
- b) The only broker-dealer client referrals received by Sterneck Capital are from TD Ameritrade. In all cases, accounts for new clients were opened at TD Ameritrade. Through the Prime Brokerage system client transactions may be performed away from TD Ameritrade, however these executing brokers have not referred clients to Sterneck Capital.



### **3. Directed Brokerage**

- a) Not applicable – Sterneck Capital does not recommend or require that a client direct the use of a specific broker dealer.
- b) As a general rule, SCM does not permit a client to direct brokerage. There are unique and specific arrangements in which a particular brokerage firm is utilized for their capability to accommodate a specific investment mandate. In these unique cases, the fee charged by the brokerage firm is commensurate with the expertise and capability being delivered.

### **B. Aggregate Purchase and Sales**

When the opportunity allows, Sterneck Capital aggregates purchase and sales transaction which consolidates trading with a primary custodian ensuring all clients receive the price benefits associated with high volume.

## **XIII. Review of Accounts**

### **A. Frequency and Nature**

Accounts are reviewed no less than weekly, and typically on a daily basis. The Chief Investment Officer and Sr. Portfolio Manager conduct most reviews, ensuring account allocation is in line with each clients' investment mandate. Such factors as investment objectives, tax consequences, industry concentrations, future prospects of each issue and percentage invested are considered. The use of technology facilitates a more accurate and more efficient means for conducting frequent reviews.

### **B. Non-Periodic Reviews**

Reviews frequently are performed on a non-periodic basis. Events that may trigger such reviews:

- Preparation for a client meeting
- Macro economic, political or environmental developments that prompt the SCM Investment Committee to change underlying assumptions about particular asset classes.
- Strategic security selection which requires a broad adjustment within a portfolio

### **C. Frequency of Reporting**

*Monthly* - Managed account clients receive a monthly brokerage statement, as well as individual confirmations whenever a trade is executed. These are provided by a qualified, third party custodian. The investment limited partnership investors receive unaudited monthly capital account reports.

*Quarterly* - Letter to investment limited partnership investors reporting unaudited performance and commentary. Managed accounts receive billing statements including a written offer to furnish

SCM's Form ADV Part II; and, unaudited account performance report for the most recent quarter and year to date.

*Annually* – Taxable managed account clients receive an annual Form 1099 from their qualified, third party custodian. Additionally, SCM furnishes taxable managed accounts with realized gains and loss statement, income report, and expense report. All clients receive annual performance report. The investment limited partnership investors receive an independently audited financial report and a K-1 from the partnership's CPA firm.

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

### **A. Economic Benefits to SCM**

As disclosed under Item 12. above, Advisor participates in TD Ameritrade's institutional customer program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between SCM's participation in the program and the investment advice it gives to its Clients, although SCM receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to SCM by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by SCM's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit SCM but may not benefit its Client accounts. These products or services may assist SCM in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help SCM manage and further develop its business enterprise. The benefits received by SCM or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, SCM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by SCM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence SCM's choice of TD Ameritrade for custody and brokerage services.

## B. Compensation from SCM

SCM is willing to enter into written solicitor agreements with other investment advisors and or financial planning firms appropriately registered with either the US SEC or the State(s) in which they operate. Pursuant to such an agreement, SCM will remunerate the solicitor for directing clients to the investment manager. As a matter of policy any client acquired by the investment manager through such an arrangement will pay the same fees as the investment manager's other clients of similar size receiving similar services and no additional charges or costs will be incurred by any client by virtue of their having been introduced by a third party.

SCM may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, SCM may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with SCM and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise SCM and has no responsibility for SCM's management of client portfolios or SCM's other advice or services. SCM pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to SCM ("Solicitation Fee"). SCM will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by SCM from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired SCM on the recommendation of such referred client. SCM will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

SCM's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, SCM may have an incentive to recommend to clients that the assets under management by SCM be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, SCM has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. SCM's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

## **XV. Custody**

SCM does not have custody of client assets for individually managed accounts. There are two very specific circumstances in which SCM does have custody of client assets, 1) as General Manager of Sterneck Value & Opportunity, LP, SCM maintains a checking account to issue expense payments and accommodate partner capital flows; and 2) As Managing Member of SCM Energy Partners, SCM maintains a checking account to issue expense payments and distributions. In both cases third-party payments can be made from the account, thus constituting custody according to SEC rules. In both cases, annual audits are conducted by a national CPA firm, satisfying SEC custody rules.

## **XVI. Investment Discretion**

Sterneck Capital manages accounts on a discretionary basis. This means SCM has the authority, as set forth in Management Agreement signed by each client, to make buy and sell decisions for the client's investment account without first getting client approval for each transaction.

Any investment discretion SCM exercises is subject to the provisions of the client's account documents, and in the Investment Policy Statement. The Investment Policy Statement addresses specific trade restrictions and preferences disclosed by the client, as well as investment objectives and agreed upon asset allocation.

## **XVII. Voting Client Securities**

Sterneck Capital does not vote proxy statements on behalf of individually managed client accounts. As General Manager of Sterneck Value & Opportunity, LP, Sterneck Capital has the authority to vote proxy statements for the partnership at its discretion.

## **XVIII. Financial Information**

### **A. Prepayment of management fees**

Not applicable – Sterneck Capital does not require prepayment of management fees six months in advance.

**B. Financial Condition**

Sterneck Capital has no financial condition that is reasonably likely to impair its ability to meet contractual commitment to clients.

**C. Bankruptcy Petition**

Not applicable – Sterneck Capital has not been the subject of a bankruptcy petition at any time.

**XIX. Requirements for State-Registered Advisers**

Not applicable – Sterneck Capital registers with the SEC.