

DISCLOSURE BROCHURE

THE INVESTMENT ADVISORS ACT OF 1940 RULE 204-3
FORM ADV PART 2A



Firm CRD/IARD #: 113776

Bay Capital

REGISTERED INVESTMENT ADVISOR

This Disclosure Brochure provides information about the qualifications and business practices of Bay Capital, which should be considered before becoming a client. You are welcome to contact us should you have any questions about the contents of this brochure - our contact information is listed to the right. Additional information about Bay Capital is also available on the SEC's website at www.adviserinfo.sec.gov.

The information contained in this Disclosure Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Administrator.

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BROCHURE
DATED
1
JANUARY
2011



MATERIAL CHANGES

ITEM 2

There have been no material changes made to this document since the last revision date indicated on the cover of this Disclosure Brochure.



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ADVISORY BUSINESS

Who We Are

Bay Capital (hereinafter referred to as “the Company”, “we”, “us” and “our”) is a full-service registered investment advisor¹ organized in March of 1992 as a Sole Proprietor. We offer a wide range of financial management services designed to assist you, our client², in achieving your financial goals.

Owners

The Company is organized as a Sole Proprietor controlled by:

Name	Title	CRD #
Stephen Mark Cooper	Owner/Chief Compliance Officer	1306622

Assets Under Management

As of December 31, 2010, our assets under management totaled:

Client Discretionary Managed Accounts..... \$38,017,174.00

We do not offer non-discretionary investment management services.

Mission and Objective

Our mission is to control investment volatility through a daily focus on risk management while selectively participating in the exceptional opportunities that the dynamic marketplace offers. Through our emphasis on risk management, preservation of capital is placed on an equal footing with investment return. It is our belief that an active execution of risk management strategies, using efficient investment vehicles, provides a superior risk/reward relationship, especially when compared to traditional, passive investment strategies.

What We Do

We specialize in active asset allocation that combines a technical assessment of short- and intermediate-term market trends that are used to increase exposure in favorable markets and decrease exposure in unfavorable markets. Through multiple programs with different risk/reward characteristics, we can tailor portfolios that match a range of risk tolerances and time-frames. We believe that our approach can best:

- ❖ Take advantage of the changing economic environment
- ❖ Implement the investment strategies best suited to attain your financial goals
- ❖ Reduce the volatility of investment returns based on your risk tolerance
- ❖ Provide liquidity and access to principal that is unusual in a long-term investment

¹ The term “registered investment advisor” is not intended to imply that Bay Capital has attained a certain level of skill or training. It is used strictly to reference the fact that we are “Registered” as an “Investment Advisor” with the Florida Department of Financial Services, Office of Financial Regulation – and with such other regulatory agencies that may have limited regulatory jurisdiction over our business practices.

² A client could be an individual, a corporation and/or small business, another fiduciary, a trust, an estate, a charitable organization and/or any other type of entity structure to which we choose to give investment advice.



For more information on our investment services, see “Methods of Analysis, Investment Strategies and Risk of Loss” below.

How We Get to Know You

We get to know you through a one-on-one consultation to discuss issues such as your current income and expenses, career, personal goals, investment return expectations and prior investment experience. In addition, we will have you complete a client profile form³ to provide us with a picture of your financial needs.

With the complexity of today’s marketplace, it is critical for us to understand who you are and what you want to accomplish financially. We must have a clear picture of your unique financial requirements and risk tolerance so that we can develop a successful investment plan.

Our meeting with you to discuss your finances will help to eliminate much of the guesswork in achieving the security and independence you desire and in simplifying your financial alternatives. In return, we will have:

- ❖ Defined and narrowed objectives and investment options
- ❖ Identified areas of greatest distress or risk
- ❖ Developed a strategy for achieving your long-term goals
- ❖ Enhanced peace of mind
- ❖ Created a unique picture of your overall economic personality

Once your investment parameters have been identified, we will recommend an investment strategy that is suitable for your unique investment expectations and risk tolerance.

FEES & COMPENSATION

ITEM 5

Investment Programs

Matching your defined investment parameters with a portfolio designed to meet your goals and objectives, risk tolerances and time frames is the focus of our programs. Your managed account(s) may include a combination of the following programs.

Bay Capital I & Conservative Allocation Programs

Objective - The BC I and the Conservative Allocation programs have an investment objective of conservative growth and income and are the most conservative programs offered. These programs primarily seek to invest in domestic stock and bond mutual funds and, to a lesser degree, funds representing market sectors or different asset classes including domestic and global funds, real assets, real estate, and funds that move inversely to market indexes.

³ The profile questionnaire we use is an important tool in gathering information about your investment methodology, risk tolerance, income/tax bracket, liquidity, time horizons, etc. If you elect not to answer the questionnaire or choose to respond with limited input, it is possible that we could operate in a handicapped capacity contrary to your investment needs. Therefore, if you desire the most effective and accurate recommendations regarding your managed account(s), you should make every effort to provide us with your detailed personal needs and objectives, along with detailed financial and tax information.



Management - The BC I and the Conservative Allocation Programs may be reallocated quarterly or more often. All BC “numbered” programs utilize short-term market signals, while the “allocation” programs utilize long-term market signals. The mutual funds selected will be either no-load or front-load funds with the load waived. In cases where you elect to purchase “C” class mutual funds that pay our associates a 1% annual commission, the annual management fee may be waived. “C” class mutual funds may impose a 1%, 1-year contingent deferred sales charge, and may charge a higher annual management fee than other mutual fund classes.

Account Minimum:	\$25,000		
Fee Schedule:	Account Value	Annual Fee	Max. Annual 12(b)-1 Fee [†]
	First \$1,000,000	1.00%	+ 1.00%
	Next \$1,000,000	0.80%	+ 1.00%
	Next \$1,000,000	0.60%	+ 1.00%
	Over \$3,000,000	Negotiable	+ 1.00%
Performance Fee:	Amount over \$750,000 1.00% and 20%*		
Key Benefits:	Bond market returns with below-average risk		

[†] We have potential to earn a 12(b)-1 distribution or trailer fee that could be as high as 1.00%, which could cause the fees we earn from you to approach 2.00% for the BC I and Conservative Allocation Programs. The 12(b)-1 administrative fee is included with the mutual funds overall management fee paid to us by the Investment Company. For more information on these fees, please refer to 12(b)-1 Distribution Fees under the “Brokerage Practice” section of this Disclosure Brochure.

* See “Performance-Based Fees and Side-By-Side Management” for explanation of fee structure.

Bay Capital II & Moderately Conservative Allocation Programs

Objective - The BC II and the Moderately Conservative Allocation Programs have an investment objective of moderately conservative growth. These Programs primarily seek to invest in diversified stock and bond mutual funds but may include less diversified sector mutual funds and funds that can move inversely to market indexes that are exchanged with money market funds within a mutual fund family, or variable annuity.

Management - The BC II and the Moderately Conservative Allocation Programs may be actively reallocated based on market signals. All BC “numbered” programs utilize short-term market signals, while the “allocation” programs utilize long-term market signals. The mutual funds selected will be either no-load or front-load funds with the load waived. In cases where you elect to purchase “C” class mutual funds that pay our associates a 1% annual commission, the annual management fee may be waived. “C” class mutual funds may impose a 1%, 1-year contingent deferred sales charge, and may charge a higher annual management fee than other mutual fund classes.

Account Minimum:	\$50,000		
Fee Schedule:	Account Value	Annual Fee	Max. Annual 12(b)-1 Fee [†]
	First \$1,000,000	1.50%	+ 1.00%
	Next \$1,000,000	1.25%	+ 1.00%
	Next \$1,000,000	1.00%	+ 1.00%
	Over \$3,000,000	Negotiable	+ 1.00%
Performance Fee:	Amount over \$750,000 1.00% and 20%*		
Key Benefits:	Growth & Income returns with below-average risk		

[†] We have potential to earn a 12(b)-1 distribution or trailer fee that could be as high as 1.00%, which could cause the fees we earn from you to approach 2.50% for the BC II and Moderately Conservative Allocation Programs. The 12(b)-1 administrative fee is included with the mutual funds overall management fee paid to us by the Investment Company. For more information on these fees, please refer to 12(b)-1 Distribution Fees under the “Brokerage Practice” section of this Disclosure Brochure.

* See “Performance-Based Fees and Side-By-Side Management” for explanation of fee structure.



Bay Capital III & Moderate Allocation Programs

Objective - The BC III and the Moderate Allocation Programs have an investment objective of moderate growth. These programs primarily seek to invest in stock, bond and sector mutual funds. Varying asset classes may be added to construct a “portfolio of portfolios”. At times, mutual funds are exchanged to money market mutual funds or an approximate market-neutral position is assumed using mutual funds that move in the opposite direction of the market.

Management - The BC III and the Moderate Allocation Programs may be actively reallocated based on market signals. All BC “numbered” programs utilize short-term market signals, while the “allocation” programs utilize long-term market signals. The mutual funds selected will be no-load, level-load funds (with no entry or exit fees), or front-end load funds with the load waived.

Account Minimum:	\$100,000		
Fee Schedule:	Account Value	Annual Fee	Max. Annual 12(b)-1 Fee [†]
	First \$1,000,000	2.00%	+ 1.00%
	Next \$1,000,000	1.50%	+ 1.00%
	Next \$1,000,000	1.00%	+ 1.00%
	Over \$3,000,000	Negotiable	+ 1.00%
Performance Fee:	Amount over \$750,000 1.00% and 20%*		
Key Benefits:	Growth return expectation with below-average risk		

[†] We have potential to earn a 12(b)-1 distribution or trailer fee that could be as high as 1.00%, which could cause the fees we earn from you to approach 3.00% for the BC III and Moderate Allocation Programs. The 12(b)-1 administrative fee is included with the mutual funds overall management fee paid to us by the Investment Company. For more information on these fees, please refer to 12(b)-1 Distribution Fees under the “Brokerage Practice” section of this Disclosure Brochure.

* See “Performance-Based Fees and Side-By-Side Management” for explanation of fee structure.

Bay Capital Select Advisors Moderate Growth

Objective - The BC Select Advisors Moderate Growth Program has an investment objective of moderate growth. It is a multi-manager, absolute return strategy designed to maximize risk-adjusted returns in both bull and bear market cycles and to provide a low correlation to a traditional growth portfolio.

Management - With the BC Select Advisors Moderate Growth Program, we select independent third-party managers to consult on market direction, i.e., buy/sell signals. The manager selection process is based on: (i) investment style and performance; (ii) complementary allocation with other managers in the program; (iii) volatility and the manager’s ability to perform their assigned skill within different market trends. The weighting for different managers, including the addition and removal of managers, occurs as the individual manager’s performance dictates, including the assumption of a partial cash position if necessary.

Under this program we will purchase buy/sell signals from independent managers, which we may or may not execute. The managers do not directly manage assets or have access to your account information. Each manager is compensated based on the total programs’ assets that we have allocated to the buy/sell signal we purchased from the manager, ranging between 0.50% and 1.50% of assets.



Account Minimum:	\$250,000		
Fee Schedule:	Account Value	Annual Fee	Max. Annual 12(b)-1 Fee [†]
	First \$1,000,000	2.50%	+ 0.25%
	Next \$1,000,000	2.00%	+ 0.25%
	Next \$1,000,000	1.50%	+ 0.25%
	Over \$3,000,000	Negotiable	+ 0.25%
Performance Fee:	Amount over \$750,000 1.00% and 20%*		
Key Benefits:	Stock, bond, and sector exposure providing non-correlated returns including the ability to benefit from falling as well as rising markets with below average risk		

[†] We have potential to earn a 12(b)-1 distribution or trailer fee that could be as high as 0.25%, which could cause the fees we earn from you to approach 2.75% for the BC Select Advisors Moderate Growth Program. The 12(b)-1 administrative fee is included with the mutual funds overall management fee paid to us by the Investment Company. For more information on these fees, please refer to 12(b)-1 Distribution Fees under the "Brokerage Practice" section of this Disclosure Brochure.

* See "Performance-Based Fees and Side-By-Side Management" for explanation of fee structure.

Investment Program Protocols

The following protocols establish how we handle our portfolio management accounts and what you should expect when it comes to: (i) your bill for investment services; (ii) withdrawing funds from your account(s); (iii) other fees charged to your account(s); and, (iv) account termination.

Discretion

We will establish discretionary trading authority on all management accounts to execute securities transactions at anytime without your prior consent or advice.

Billing

Your account will be billed quarterly in arrears based on the fair market value of the assets in your account and your allocation mix between programs. Contributions to or withdraws from your account made during the calendar quarter will be prorated. For the first billing quarter, if the management account was not opened at the beginning/end of the quarter, the fee will be based upon a prorated calculation of the fair market value of your assets managed for the period.

The fees indicated under each of our above programs represent the annual percentage charged for portfolio management provided on an asset-based fee arrangement. The fee for a quarter will be one-fourth of the annual percentage (i.e., $2.50\% \div 4 = 0.625\%$) multiplied by corresponding market value of the assets within the tier on the last business day of the previous calendar quarter. Fee breaks will occur as assets in your portfolio increase past the indicated tiers. We retain discretion to negotiate the management fee indicated under each of the portfolio strategies on a client-by-client basis. The overall fee charged will be weighted between the programs and within the tiers of each program. For example:

Account Value: \$2,500,000

Program	\$ Allocated	% Allocated	Fee % (Based on the Corresponding Account Value within the Tier)	Weighted Average Fee
BC III	\$1,600,000	55%	1.50%	0.825%
BC Select	\$900,000	45%	2.50%	1.125%
Weighted Total:				1.95%



Weighted total fees may be higher or lower based on: (i) your total account value; (ii) the amount allocated across programs; and, (iii) the tier fee-breaks within each program. This can create an incentive for us to allocate your assets in a manner that would maximize our weighted fee return. However, we base the allocation of your account based on your risk tolerance and investment goals, which you authorize and agree to.

Advisory fees will be taken first from free credit balances or from any money market funds or balances. If such assets are insufficient to satisfy payment of such fees, a portion of the account assets will be liquidated to cover the fees. Such liquidation may affect the relative balances of the account.

Deposits and Withdrawals

Assets deposited or withdrawn by you between billing cycles will result in a pro-rated management fee being billed to your account based on the number of days during the quarter the deposited or withdrawn assets were managed.

Fee Exclusions

The above fees for all our management services are exclusive of any charges imposed by the custodial firm, such as: (i) any Exchange/SEC fees; (ii) service or account charges, including, postage/handling fees; (iii) transaction fees earned by the custodial firm for securities transactions (Currently, none of our custodians charge transactions fees in the normal course of business.); and/or (iv) trust company custody fees.

In addition, all fees paid to us for management services are separate from any fees and expenses charged to shareholders of mutual fund shares by the investment company or by the investment advisor managing the mutual fund portfolios. These expenses generally include management fees and various fund expense, such as: 12b-1 fees. Redemption fees, account fees, purchase fees, contingent deferred sales charges, and other sales load charges may occur but are the exception within managed accounts at institutional custodians. A complete explanation of these expenses charged by the mutual funds is contained in each mutual fund's prospectus. You are encouraged to carefully read the fund prospectus.

Termination of Investment Services

To terminate investment advisory services, either party, by written notification to the other party, may terminate the Investment Advisory Agreement at any time provided such written notification is received before the close of business on any business day of the week. We have five (5) business days from the date we receive the written termination to remove you from our allocation programs. Such notification should include the date the termination will go into effect, if not immediate, along with any final instructions on the account.

In the event termination does not fall on the last/first day of a calendar quarter, we will bill your account for our final management fee pursuant to the Investment Advisory Agreement. Once the termination of investment advisory services has been implemented, neither party has any obligation to the other - we no longer earn management fees or give investment advice and you become responsible for making your own investment decisions.



PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

Performance Trading

Should you be interested, and meet the minimum qualifications we offer an optional performance-based management fee structure for each of our programs.

Performance Fee

The Performance-based fee is based on how well the account performs over a quarterly period as follows:

- ❖ If the account value, at the close of the current calendar quarter, exceeds the prior high watermark account value, we will earn 20% of the trading profits over the high watermark, plus 1.00% of assets whether the account is profitable or not.
- ❖ The “high watermark” is the portfolio account value, adjusted for deposits, withdrawals, and fees. The high watermark becomes the hurdle rate the portfolio must exceed in any future quarters. If the account value at the close of a calendar quarter exceeds the prior high watermark, that account value becomes the new high watermark hurdle rate.
- ❖ If the quarterly account value does not exceed the high watermark, we do not earn a performance fee.
- ❖ The “quarterly account value” is the value of your portfolio, adjusted for deposits, withdrawals, and fees as shown on your account statement at the close of each calendar quarter.
- ❖ An annual base portfolio management fee not to exceed 1.00% to be calculated and billed quarterly in arrears. Keep in mind, as disclosed under the BC I, BC II, and BC III Programs, we can also earn a 12(b)-1 fee. Depending on the program and the amount invested in those mutual funds that payout a 12(b)-1 fee, we have the potential to earn trail fees as high as 1.00%. We may waive or discount the 1.00% base management fee if we accept a 12(b)-1 trail.
- ❖ Performance-based fees can also be charged on the management of the underlying investments in a variable annuity. In these cases, if we earn a trail commission on the insurance product - the base management fee will be waived.

Termination Provision for Performance Trading

Performance-based management accounts can be terminated at any time. Upon termination, if your performance-based management account exceeds the quarterly high watermark established for your account at the beginning of the previous calendar quarter, we will bill your account our performance fee and the prorated asset-base fee due.

Regulatory Restrictions

To participate in the performance trading fee structure, you must meet the minimum requirements of SEC Rule 205-3(d)(1), which are only available to you if: (i) You fully understand the risks involved in performance-based fee management; (ii) You have at least \$750,000 under management with us or a net worth equal to or greater than \$1,500,000; or, (iii) You are a “qualified purchaser” under Section 2(a)(51)(A) of the Investment Company Act of 1940.



Positives and Negatives with Performance-Based Fee Accounts

A performance-based fee structure gives you the ability to pay only for performance. The benefit, in comparing the standard asset-based management fee with our performance-based fee is, if we **don't** achieve and exceed the quarterly high watermark, you would only pay the 1.00% management fee for your account while enjoying, hopefully, a moderate to neutral return. The negative to you is, if we **do** exceed the quarterly high watermark, the fee you would pay would be a share of the capital gains in your account - which could be substantially higher than our standard asset-based fee structure.

Performance-Based Management Conflicts

In a performance-based fee account, we can earn a substantially higher fee based on the returns we generate in your account. This poses a potential conflict of interest, which could affect the objectivity of our advice and recommendations in the following ways:

- ❖ Such performance-based accounts create greater incentives for us to be more aggressive so as to achieve higher returns. When we do this, you absorb a greater risk of possible loss in the account while we would only lose potential performance-based management fees.
- ❖ Focus on such performance-based accounts could consume much of our time and therefore those other non-performance managed accounts could lose out on valuable time that should be devoted to all investments.

Notwithstanding such potential conflicts, we strive to serve your best interest; as well as, ensuring such performance based management is in compliance with the Investment Advisor Act of 1940, Rule 275.205-3.

TYPES OF CLIENTS

ITEM 7

The types of clients we offer advisory services to are described above under “Who We Are” in the Advisory Business section. Our minimum account size for portfolio management is disclosed above under each of the “Investment Programs” listed in the Fees & Compensation section of this Brochure.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES & RISK OF LOSS

ITEM 8

Our advisory services are designed to build long-term wealth while maintaining risk tolerance levels acceptable to you. We combine your investment objectives, time horizon, and risk tolerance to yield an effective investment allocation strategy and then match the strategy with our investment programs. All of our programs' investments are made in investment company products (i.e., open-end mutual funds, variable annuities, and variable life insurance contracts).



Methods of Analysis

In analyzing and executing our various programs' strategies, we use a technical approach to guide our buy/sell decisions within our allocation process. Technical analysis utilizes current and historical pricing information to help us identify trends in the broader domestic and foreign equity and fixed income markets, and in the underlying assets themselves. This may involve the use of various technical indicators, such as moving averages and trend lines, among others.

Investment Strategy

We are not bound to a specific investment strategy or ideology for the management of your investment portfolio except for how such strategy might affect the risk tolerance levels we pre-defined for you during the getting-to-know-you process. However, our investment strategies generally incorporate these methodologies:

Modern Portfolio Theory

Modern Portfolio Theory ("MPT")⁴ is the analysis of a portfolio of stocks as opposed to selecting stocks based on their unique investment opportunity. The objectives of MPT is to determine your preferred level of risk then construct a portfolio that maximizes your expected return for that given level of risk. Our investment methodology follows five (5) basic premises, each of which is derived from MPT.

1. You, as with all clients, are inherently risk-averse.
2. The markets are basically efficient.
3. The focus of attention is shifted away from individual securities analysis to consideration of portfolios as a whole, predicated on explicit risk-reward parameters.
4. For any level of risk that you are willing to accept, there is a rate of return that should be targeted.
5. Portfolio diversification is not so much a function of how many issues are involved, but more a function of the relationships and proportions of each asset to its correlating asset.

DISCIPLINARY INFORMATION

ITEM 9

There are no legal or disciplinary events to report at this time that are material to your evaluation of our advisory business.

⁴ Modern Portfolio Theory was developed and introduced by Harry M. Markowitz in his paper "Portfolio Selection" published in 1952 by the *Journal of Finance*.



OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS

Brokerage and Insurance Company Activities

Calton & Associates, Inc.

All of our supervised persons are licensed registered representatives of Calton & Associates, Inc., a licensed broker/dealer (member FINRA/SIPC), allowing them to sell listed/unlisted securities and investment company and variable insurance products.

Notwithstanding the fact that our supervised persons are licensed registered representatives of Calton & Associates, we are solely responsible for all investment management services rendered. The investment management services which we provide are separate and independent of Calton & Associates.

Independent Insurance Agents

All of our supervised persons are licensed as resident life, health, and variable annuity insurance agents by the State of Florida and may be licensed as non-resident agents in other states. Each agent is licensed to sell insurance-related products and earn commissions from the sale of these products.

More information about our supervised persons' and their affiliations can be found in their individual "Brochure Supplements".

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING

Code of Ethics

As a fiduciary, the Company has an affirmative duty to render continuous, unbiased investment advice, and at all times act in your best interest. To maintain this ethical responsibility, the Company has adopted a Code of Ethics that establishes the fundamental principles of conduct and professionalism expected by all personnel in discharging their duties. This Code is a value-laden guide committing such persons to uphold the highest ethical standards, rooted in the most elementary maxim. The Company's Code of Ethics is designed to deter inappropriate behavior and heighten awareness as to what is right, fair, just and good by promoting:

- ❖ Honest and ethical conduct.
- ❖ Full, fair and accurate disclosure.
- ❖ Compliance with applicable rules and regulations.
- ❖ Reporting of any violation of the Code.
- ❖ Accountability.

To help you understand our ethical culture and standards, how we control sensitive information and what steps have been taken to prevent personnel from abusing their inside position, a copy of our Code of Ethics is available for review upon request.



Securities Transactions for Compensation

As previously mentioned our supervised persons are licensed registered representatives of Calton & Associates, Inc. As registered representatives, they may execute, as a broker, securities transactions for you and earn sales commissions from such transactions. This can be considered a conflict of interest when giving investment advice for a fee on securities product that can be sold for a commission.

However, our supervised persons will **not** receive commissions for securities transactions that occur within the accounts that we manage. In the case of "C" share mutual funds where we can earn a 1% trail commission, and the client may be subject to a 1-year contingent deferred sales charge, our management fee may be waived. Regardless, in cases where our supervised persons could receive commissions, whether from a security or an insurance product, it is our policy to fully disclose, prior to execution of such transactions, the fact that our supervised person will receive commissions. In no case do supervised persons earn fees or commissions based on routine transactions that are part of the daily management of our programs.

Client Transactions

We have a fiduciary duty to ensure that your welfare is not subordinated to any interests of ours or any of our personnel. Therefore, it is against our policies for any of our employees to invest with you or with a group of clients, or to advise you or a group of clients to invest in a private business interest or other non-marketable investment unless prior approval has been granted by Mr. Stephen M. Cooper, and such investment is not in violation of any SEC and/or State rules and regulations.

BROKERAGE PRACTICES

ITEM 12

Trust Company of America

The Company maintains a custodial relationship with Trust Company of America ("TCA"), a commercial bank regulated by the Colorado State Banking Commission (member FDIC).

We have selected TCA as our primary custodian, based on their competitive fees (TCA charges a percentage of assets under management for all account services including transactions), their state-of-the-art trading platform (TCAdvisor II and TCAccess II), and on-line services for account administration and operational support. However, since we do not recommend, suggest or make available a selection of custodians, other than TCA, best execution may not always be achieved and you may pay higher fees. There will be no attempt by us to recommend TCA based solely on the lowest fees available. Your investment needs, their general reputation, trading capabilities, investment inventory, financial strength and our personal experience working with TCA has been considered, among other items, in suggesting TCA to you.

We are not a subsidiary of, or affiliated with, TCA in any manner. We are solely responsible for investment advice rendered, and advisory services are provided separately and independently of TCA.



Calton & Associates, Inc.

The Company maintains a custodial relationship with Calton & Associates, Inc., a registered broker-dealer (member FINRA/SIPC), on a fully disclosed basis through Southwest Securities, Inc (member FINRA/SIPC), because our supervised persons are licensed registered representatives with Calton & Associates. Custodial services offered through Calton & Associates are typically reserved for our least active conservative accounts. These accounts are generally the BC I and the Conservative Allocation Programs.

We are not a subsidiary of, or affiliated with Calton & Associates - except that our supervised persons are registered representatives. We have sole responsibility for investment advice rendered, and our advisory services are provided separately and independently from Calton & Associates.

12(b)-1 Distribution Fees

In addition to the management fee, some of the open-end investment company funds that we purchase for clients assess a 12(b)-1 distribution fee or an administrative or service fee of which we can collect up to an additional maximum of 1.0% annually, but generally smaller fractions of 1.00% are typical. This could theoretically increase the overall fees that we can earn to as high as 3.00%. Keep in mind, these 12(b)-1 fees are built-in costs paid by the investment company regardless of whether we collect a portion or not. Such information will be disclosed in our Investment Advisory Agreement.

Our management fee schedules have been calculated to incorporate the receipt of some additional 12(b)-1 fee income, depending on the program. However, accepting these 12(b)-1 fees creates an incentive for us to select mutual funds for our investment programs based on the highest 12(b)-1 fee and not for what is in your best interest. We recognize that by accepting 12(b)-1 fees we are creating a situation of undivided loyalty and our fiduciary duty to render continuous, unbiased investment advice may be called into question. Therefore in situations where we have the option between similar mutual funds paying 12(b)-1 fees or not paying 12(b)-1 fees, we will: (i) when allocating the investment program, document why one mutual fund has been selected over another; and (ii) retain records of these decisions for your review as well as for regulatory purposes.

Variable Annuities/Variable Life Insurance

As licensed registered representatives and insurance agents, there may be situations where a variable annuity insurance policy may be recommended to you. In that situation, the supervised person who sold the annuity would earn the normal commission on that product. In addition, the variable annuity can pay the supervised person an on-going annual trail commission of up to 1.00%.

Where we have sold a variable annuity product that we are in turn managing the underlying investment, we have reduced our management fee. Such information will be disclosed to you in our Investment Advisory Agreement.



REVIEW OF ACCOUNTS

ITEM 13

Our basic service is active asset allocation and each account is reviewed daily in the normal course of market observation by the supervised person assigned to your account. All accounts are reviewed in the context of our investment programs. No individual reallocations are made except in the case of your cash needs. Reallocation is based on the objectives of the investment program.

CLIENT REFERRALS & OTHER COMPENSATION

ITEM 14

Referral Compensation

We may directly compensate persons/firms for client referrals, provided that those persons are qualified and have entered a solicitation agreement with us. Under such arrangements, if you were referred to us by a solicitor, the solicitor will provide complete information on our relationship and the compensation that solicitor will receive should you choose to open an account. In no case will the fee that you pay be higher than it would be if you had dealt directly with us.

CUSTODY

ITEM 15

We do not take possession of or maintain custody of your funds or securities, but will simply monitor the holdings within your portfolio and exchange funds within your account based on stated investment objectives and risk tolerance. Possession and custody of your funds and/or securities shall be maintained with Trust Company of America or Calton & Associates, Inc. as indicated above under "Brokerage Practices".

TCA and/or Calton & Associates will send, at least quarterly, statements summarizing the specific investments currently held in your account, the value of your portfolio, and all account transactions. You are encouraged to verify the transaction activities disclosed in your statement with our invoice that we send each quarter showing how the management fee is calculated and withdrawn from your account.

INVESTMENT DISCRETION

ITEM 16

Securities and Amount Bought or Sold

We execute an Investment Advisory Agreement with you, which sets forth our authority to buy and sell securities in whatever amounts are determined to be appropriate for your account without your prior approval.



VOTING CLIENT SECURITIES

ITEM 17

We are hereby expressly precluded from voting proxies. You understand and agree that you retain the right to vote all proxies, which are solicited for securities held in your managed accounts. Any proxy solicitations received by the custodian will be immediately forwarded to you for your evaluation and decision.

FINANCIAL INFORMATION

ITEM 18

We are not required to include financial information in our Disclosure Brochure since we will not take custody of client funds or securities or bill client accounts six (6) months or more in advance for more than \$500. As stated previously, all fees are assessed in arrears.

REQUIREMENTS FOR STATE-REGISTERED ADVISORS

ITEM 19

Information of each of our principal executive offers and supervised persons can be found in the attached "Brochure Supplements".

END OF DISCLOSURE BROCHURE