

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011



Name of Registered Investment Advisor	Capital Advisory Group, Inc.
Address	5151 Belt Line Road, Suite 1250 Dallas, Texas 75254
Phone Number	972-770-4840
Website Address	www.CAGWM.com
Primary E-mail Address	jhopson@cagwm.com
Date of Last Brochure Revision	3/25/2011

This Form ADV Part 2A (Investment Advisor Brochure) gives information about the investment advisor and its business for the use of Clients and prospective Clients. If you have any questions about the contents of this brochure, please contact us using one of the methods listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration is mandatory for all persons meeting the definition of investment advisor and does not imply a certain level of skill or training.

Additional information about our firm is available on the SEC's website at: www.adviserinfo.sec.gov.

MATERIAL CHANGES

Material changes to the ADV Brochure in the future will be provided as a separate page or additional separate document to Clients who have received previous versions of the Brochure.

As of the date of this Brochure March 25th 2011 Capital Advisory Group, Inc. has made no material changes to its business or its services it provides its Clients since its most recently filed Form ADV prepared in March of 2010.

Delivery of Material Change information

Within 120 days of our fiscal year end we will deliver our annual Summary of Material Changes if there has been any material change since the last annual updating amendment.

With this Summary, we also hereby offer to deliver an updated Investment Advisor Brochure upon your request at any time during the year. You may obtain this information in one of two ways:

- Contact our firms CCO: James S. Hopson, Jr. at (972)770-4850.
- Online access at the Investment Adviser Public Disclosure website at: www.adviserinfo.sec.gov

TABLE OF CONTENTS

MATERIAL CHANGES	2
TABLE OF CONTENTS	3
ADVISORY BUSINESS	4
FEES AND COMPENSATION.....	6
PERFORMANCE BASED FEES.....	10
TYPES OF CLIENTS WE SERVE.....	10
METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS.....	11
DISCIPLINARY INFORMATION.....	12
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATES.....	13
TRADE AGGREGATION	17
REVIEW OF ACCOUNTS.....	17
CLIENT REFERRALS & OTHER COMPENSATION.....	18
INVESTMENT MANAGEMENT DISCRETION	19
PROXY VOTING POLICY	20

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document | 2011

ADVISORY BUSINESS

Capital Advisory Group, Inc. (“CAG”) a Dallas, Texas based wealth management firm has been providing financial planning and investment advisory services to its Clients for over twenty years since its formation in 1990. It was founded by James S. Hopson, Jr. MBA, CPA, CFP® a long term resident of Dallas, Texas who currently holds the positions of President, Chief Executive Officer and Chief Compliance Officer. Mr. Hopson has been in the financial services industry since 1978 when he began his career with Price Waterhouse & Co. (an international accounting firm) in the Dallas office after graduating from the University of North Texas with his Masters of Business Administration in Accounting and Taxation. After working in the tax department at Price Waterhouse & Co. he subsequently worked at two other companies in investment related businesses as a financial manager, controller and chief financial officer before founding his own public accounting firm in 1987.

Capital Advisory Group, Inc. offers advisory services designed to address the major areas of personal financial planning and investment management including, but not limited to, the management of retirement accounts, jointly owned and individual investment accounts as well as company retirement and 401(k) plans. We offer personal financial planning, estate planning, retirement planning, tax planning, cash flow strategies, and insurance planning on a comprehensive basis or for a specific area of financial planning. The purchase of these planning services are not required in order to become a Client but are offered on an as needed and/or as requested basis.

CAG’s assets under management as of February 28th 2011 were \$ 92,100,000. These Client assets are managed on a discretionary and non-discretionary basis for approximately 94 families, individuals, trusts and companies.

CAG’s services are based on the individual needs of each Client. CAG offers an initial meeting and data gathering session at no charge between the prospective Client and their designated Investment Advisor Representative “Investment Advisor” in order to more completely understand the Client's current financial situation and investment objectives. The initial meeting gives the prospective Client the opportunity to get to know CAG, its management, its financial planning and investment philosophies as well as to discuss guidance, concerns and limitations regarding the management of their investment accounts, planning needs and any other financial or personal matters the Client believes we need to be made aware of.

Once a prospective Client becomes a Client of the firm we jointly determine and agree in writing to the duties and responsibilities of CAG, the Client’s investment objectives and their financial planning needs. Clients then have the ability to discuss their investment concerns and establish standing investment instructions with CAG and their Investment Advisor. For example; A Client may establish in its Investment Policy Statement a requirement to refrain from investing in particular securities or types of securities or to limit investments in certain securities.

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

Quarterly CAG will remind the Client in writing via its newsletter to contact their Investment Advisor and notify us if there have been any changes in their financial situation or investment objectives, or to request a meeting or impose some new or modify existing account restrictions. The Investment Advisor will call and email the Client at least annually to discuss the Client's current situation and update the Client's investment objectives. CAG will respond to each Client more often if the Client requests advice on any other important financial issues.

In order to make sure we are aware of financial changes and issues that occur in each of our Client's personal lives we believe it is the Client's responsibility to notify CAG or their Investment Advisor any time there are significant and material changes in their personal or financial situations. After such notice we can then make adjustments or recommendations. The Client can also impose new restrictions that will be confirmed by us in writing or shown as an update to their Investment Policy Statement or Statement of Investment Objectives. Clients may call in at any time during normal business hours to discuss directly with their Investment Advisor information about their account, their personal financial situation, concerns or investment needs.

In addition to the monthly and quarterly consolidated performance reports from CAG, Clients will also receive from their specific custodian or brokerage firm timely trade confirmations as required and monthly or quarterly statements containing a description of all account transactions and all account activity. After transferring assets, cash or securities to a custodian recommended by CAG the Client retains all rights of ownership of all securities and funds in the account to the same extent as if the Client held the securities and funds outside the supervision of CAG and their Investment Advisor. As mentioned earlier, in addition to statements from the custodian, CAG sends monthly and quarterly performance reports to the Client in order to keep the Client clearly informed of the changes in the values and performance of their accounts.

When requested, CAG offers its Client's financial planning at an additional cost described in the following section of this Brochure. The planning is designed to focus on each individual Client's financial situation, needs and concerns. Planning may be done on a comprehensive basis where we focus on all areas of the Client's situation or it may be focused specifically on investments, insurance, taxes, estate or other planning needs. Written financial plans are only done under the terms of a CAG's written financial plan agreement that specifies the objectives of the plan, how the plan will be delivered and the costs associated with preparing the plan.

CAG and its Investment Advisors are concerned about each Client's financial situation. Therefore, discussions between the Investment Advisor and the Client regarding important areas of financial planning are incorporated into most formal Client meetings. During these discussions we try to insure that our Clients are aware of certain financial risks (such as the possible need for long term care insurance) and the steps required to manage them such as buying long term care insurance, these steps are not considered to become the responsibility of CAG to implement, manage, monitor or correct unless requested and agreed to in writing by both parties.

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

FEES AND COMPENSATION

FINANCIAL PLANNING SERVICES

Recognizing that each Client situation is unique, CAG offers to provide and charge for its financial planning services using various methods as described below. Clients are free to select the most appropriate method depending on their personal circumstances, the desired level of individual service or attention and the duration or length of CAG's involvement in the process.

- 1) Hourly-rate Basis. A Client may elect to engage CAG on an hourly basis to perform specific tasks including, but not limited to, analysis of a single area of the Client's financial affairs such as retirement planning or estate planning. CAG's staff billing rates range from \$80 to \$250 per hour depending on the complexity of the work, the degree of specialized knowledge and the level experience required. Prior to beginning any financial planning engagement, CAG will provide the estimated total costs of the work requested and describe in writing the services to be rendered. These costs are subject to adjustment and any changes in the estimated costs will be communicated to the Client. If the Client subsequently changes the scope or nature of the work or if additional work is required based on CAG's determination we will discuss these issues with the Client and make sure we are in agreement prior to continuing the work. Clients are free to stop the work requested or change the scope of the work required if these costs are unacceptable or an agreement cannot be reached. In such cases CAG will work to make sure the Client has received all of the services they paid for or refund all or a portion of the Clients planning fees in accordance with the written terms of our Financial Planning Agreement.

CAG may collect a portion of the estimated fee at the time the engagement or work begins and will invoice Client for the balance of the work at the time the completed analysis is presented or during the engagement if it determines that is more appropriate.

- 2) Fixed-fee Basis. In situations where a comprehensive, written financial plan is recommended or requested, CAG may suggest that such work be performed on a fixed-fee or retainer basis. CAG uses the following schedule, based on income and net worth, to estimate the appropriate fee. CAG's minimum fee for a comprehensive plan is \$2,000. In some cases one-half of the fee is due upon commencement of the work, with the balance due upon presentation of the final plan.

CAG GUIDELINE FOR ESTIMATING COMPREHENSIVE CLIENT FINANCIAL PLANNING FEES

Client's Income	Client's Net worth	Estimate of Fee
\$100,000	to \$350,000	\$2,000
\$100,001 to \$150,000	to \$500,000	\$2,250

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

\$150,001 to \$200,000	to \$750,000	\$2,500
\$200,001 to \$300,000	to \$1,000,000	\$3,000
\$300,001 to \$400,000	to \$1,500,000	\$3,500
\$400,001 to \$500,000	to \$2,000,000	\$4,000
Above \$500,000	above \$2,500,000	Negotiated

Where a Clients income and net worth are under different ranges, an estimate might be the average fee of the two.

The actual fee will be based on an analysis of each Clients situation and the time required by the financial planning professional(s) in each case. These costs are subject to adjustment, and changes in estimates will be communicated to the Client if the Client subsequently changes the scope or nature of the work or if additional work is required based on CAG's determination. Clients are free to suspend the work requested or change the scope of the work required if; the revised cost is unacceptable or a new agreement cannot be reached. In such cases CAG will work to make sure the Client has received all of the services they paid for or refund all or a portion of the Clients planning fees in accordance with the written terms of our Financial Planning Agreement.

- 3) Financial Advisory Service. CAG also offers on-going financial advisory and planning services on a retainer basis. The purpose of this service is to offer regular discussion and reviews of a Client's financial matters and Client's financial plan on an as requested or as needed basis. This could include Client balance sheet updates, income tax and cash flow projections, (as needed for planning) a written review and recommendations, if requested. Although this retainer agreement is automatically renewed annually at the same rate as initially agreed, the Client or CAG is free to discontinue this service at any time with 5 days written notice. These costs are subject to adjustment, and changes in estimates will be communicated to the Client if the Client subsequently changes the scope or nature of the work or if additional work is required based CAG's determination. Clients are free to suspend the work requested or change the scope of the work required if these costs are unacceptable or an agreement cannot be reached. In such cases CAG will work to make sure the Client has received all of the services they paid for or refund all or a portion of the Clients planning fees in accordance with the written terms of our Financial Planning Agreement.

Under this arrangement, Client has access to CAG's financial advisory services for the duration of the agreement based on the terms of the original agreement and the estimated levels of service offered. The fee for this service is invoiced or deducted from the Clients accounts monthly or quarterly, usually in advance. CAG develops an estimate based on individual Client needs, complexity of the situation, and services desired in determining the appropriate annual fee. Individual Client charges will vary by circumstances, services requested and the complexity of their individual situation.

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

INVESTMENT MANAGEMENT SERVICE FEES

CAG offers investment portfolio advisory services on a fee only basis. CAG's investment advisory services are designed to offer individuals, trusts, corporations and retirement plans with the appropriate asset allocation, diversification and portfolio risk characteristics consistent with prudent portfolio management.

In most cases, Client is invoiced monthly for CAG's advisory fee, based on the Clients assets managed by CAG as of the end of the prior month and that fee is deducted in most cases from the Clients investment account(s). Stated another way, CAG provides its advisory services prior to collecting the fee. Clients may terminate CAG's investment management services at any time with 30 days' notice and receive a full refund of any unearned fees if any. The following list of charges detail CAG's compensation for portfolio advisory services.

- 1) Portfolio Evaluation and Account Establishment– If a Client has an existing investment portfolio, CAG would evaluate Client's current holdings for possible repositioning. This evaluation includes a review of the investments for compatibility with Client's objectives. If a prospective Client chooses to use CAG's investment management services, Client will normally be assessed a one-time setup fee to establish the appropriate custodial or brokerage account(s) and/or trustee relationships, transfer the Clients assets and for the development of the initial asset allocation and selection of the initial recommended portfolio of mutual funds, managers and other securities.

Initial Setup Fee - \$500

- 2) Investment Management – After Client's account is established and invested, CAG's reports provide a monthly evaluation of the portfolios rate of return, asset allocation and diversification. CAG manages the account in accordance with the Client's Investment Policy Statement or Statement of Investment Objectives and will from time-to-time replace selected mutual funds and/or other assets with similar or different ones based on CAG's analysis of the account, the mutual fund managers performance, Client circumstances and financial markets. For this service, CAG charges a service, management and reporting fee in accordance with the following schedule:

ANNUAL INVESTMENT MANAGEMENT FEES CHARGED

Portfolio Size	Annual Fee	as % of Size
First \$250,000	1.50	
\$250,001 - \$1,000,000	1.00	
\$1,000,001 - \$2,000,000	0.75	
Over \$2,000,000	0.50	

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

In most cases, the above fee schedule is also assessed on any individual securities, stocks or bonds in the account which are retained from Client's prior portfolio. In order to facilitate management and reporting on variable annuities previously owned by a Client, CAG recommends an insurance company and broker-dealer that we believe will charge lower fees for custody of these types of accounts and that allows us to download information into our portfolio management system. The values of accounts are updated in our portfolio management system on a daily basis by downloading the information from the custodian's computers and fees are calculated on the ending monthly balances of the assets and any other Client assets in the account per our fee schedule. Client is urged to compare all custodial account statements against statements prepared by CAG for accuracy and notify us if there are discrepancies or they do not receive their monthly or quarterly statement. Normally fixed annuity and equity indexed annuity statements are only issued by the insurance company annually. In these cases CAG will include the most recently provided account values of the annuities in its statements as a convenience to the Client. The statement values will not reflect any surrender charges or other adjustments that might be applicable if the Client wanted to withdraw all or a portion of their funds therefore the values may be overstated.

Insurance Company statements are not always provided to CAG and therefore it is the responsibility of the Client to forward us any information to be included or updated in their report otherwise the last values provided will be reported. No investment management fees are charged on the values of fixed annuities or equity indexed annuities originally recommended by CAG or any related party other than at the time of purchase as disclosed in this brochure. Client is urged to compare all custodial account statements against statements prepared by CAG for accuracy. Fees are charged to provide ongoing service, management oversight and reporting on the Client assets typically held by our recommended custodian(s).

The setup fee in #1 above is not imposed in every situation, but is assessed in CAG's sole discretion. CAG reserves the right to negotiate the fee in #2 above in situations where the size of a prospective Client's portfolio is significantly larger than shown in CAG's published fee schedule or as CAG deems appropriate in its sole discretion. There are some existing long-term CAG Clients who are on fee schedules that cost somewhat less than the fee schedule currently charged by CAG. CAG has currently decided to continue to honor the lower fee schedule on a case by case basis due to these Clients long standing relationships with the firm.

CAG believes that its fees are comparable and in line with other investment advisers that offer similar services; however, it is possible that a Client might be able to receive similar services from another investment adviser at a lower cost.

Each no-load mutual fund, exchange traded fund or note or separate account manager recommended by CAG will have its own internal operating expenses, trading costs or possibly other types fees which are deducted from the assets of that fund or separate account. The custodian, insurance company or broker will also charge fees for some transactions that occur inside the Client's account such as trading or service fees on certain mutual funds, exchange traded

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

funds, stocks or bonds. CAG's management fee has no bearing on these expenses and CAG does not share in or benefit from these fees. CAG will try and negotiate lower fees for its Clients accounts when possible.

From time-to-time, as part of CAG's investment recommendation, Mr. Hopson, CAG's President, Owner and currently the only Investment Advisor Representative of the firm, may recommend the use of fixed, immediate or equity indexed annuities. In addition to being compensated for the sale of such products these annuities will also have declining surrender charges that will be imposed on the Client if the annuity is sold prior to the maturity date.

If an annuity is recommended by Mr. Hopson or any other CAG Investment Advisor and purchased by a Client, Mr. Hopson or the other Advisor would normally be paid a commission on the investment based on the amount of money invested. CAG does not charge any fees on the portion of the portfolio invested in fixed annuities that have paid Mr. Hopson, or any other prior or current CAG Investment Advisors or any other related party a commission.

Recommendations of these types of products could pose a conflict of interest situation due to the size and upfront nature of the compensation paid. All of these issues are discussed with Clients prior to the recommendation and or purchase by the Client of this type of investment. CAG and Mr. Hopson believe that these types of investments should normally only be used when other more traditional fixed income investment options are not overly attractive due to various reasons or in special needs situations. Special situations such as a Client needing less market risk or a more structured stream of income that might be better provided by an insurance company versus typical fixed income type investments. Elimination of a portion of the investment management fee relating to the value of the annuity in the portfolio during the time the funds are invested in the annuity, serves in CAG's belief, as a significant mitigating factor to the potential conflict of interest. Commissions paid Mr. Hopson from these types of investments over the past three to four years have been less than 4-5% of the overall revenues of the firm.

PERFORMANCE BASED FEES

CAG does not charge performance-based fees, which are based on capital gains in Client accounts often above a certain minimum level.

TYPES OF CLIENTS WE SERVE

CAG provides advisory services to high net worth individuals (individuals with a net worth normally over \$1,000,000), pension and profit sharing plans and other ERISA accounts, trusts, estates, and business entities.

Generally, CAG requires minimum annual gross fee related revenues from each Client of \$7,500 based on its standard fee schedule from its Investment Management Program and other services it

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

offers. This usually will require each current or prospective Client to have placed an amount equal to approximately \$600,000 in assets under the management of CAG in the Clients custodial account at Charles Schwab and Co. Inc. or other acceptable custodian. In its sole discretion, CAG may elect to accept accounts that are less than this minimum asset or revenue level.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

CAG believes that the use of modern portfolio theory, asset allocation strategies and diversification of investment choices is how it best provides its Clients their portfolio management and supervision. To accomplish this, CAG uses various model portfolios which are strategic asset allocations internally developed by Mr. Hopson that use various investment vehicles such as mutual funds, separate account managers, exchange traded funds, and other individual securities. These various investment vehicles are made available on the custodian's investment platform and are provided by a number of institutional investment strategists or fund managers.

After meetings and conversations with the Client where we learn about their investment experience, risk tolerance and various investment time horizons. We recommended to the Client specific model portfolios are that are believed to be the most appropriate for the Client based on the Clients objectives, personal situation, our experience and research, asset allocation methodology and investment strategies.

We use various methods to obtain information about how to develop our investment model strategies and select our funds, ETF's or separate account managers. These methods include reviews of financial newspapers, magazines and white papers (research papers). We also do analysis using software such as Morningstar Advisor Workstation which provides research and various other types of investment information on mutual funds, ETFs and stocks. We use other methods of research and analysis, including research provided by the funds themselves, Schwab and corporate rating services.

While there is risk in all investments, some investments carry a greater degree of risk, volatility or higher costs. Clients must recognize that investing in individual securities, bonds, mutual funds and ETF's involve a risk of loss or significant decline in value, and are not FDIC insured. These are risks which Clients should be prepared to bear as a part of seeking to accomplish their overall long term investment strategy using these types of investments.

There is no stated or implied guarantee by CAG, Mr. Hopson, any other related party or by the Custodian that the investment strategy selected for the Client will result in achieving the Client's long or short term goals or objectives. Nor is there any guarantee stated or implied (by any of the previously mentioned parties) of profit or protection from loss when investing with them. Past history of performance should not be relied on as a predictor of future performance and investments are not FDIC insured against loss. For those investments sold by prospectus, Clients

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

should read the prospectus in full and discuss any questions they have about their investments with CAG or their Investment Advisor.

CAG does not offer, provide advice, or recommend tactical market strategies (e.g. market timing, short selling, or options) to its Client's. CAG does not offer to nor does it believe it is setup operationally to take Clients investments to cash in volatile or uncertain markets to avoid losses. This type of reposition will not be done unless specifically recommended by us on a case by case basis or requested to do so by the Client and agreed to by the Client and CAG and confirmed in writing by email or another approved method. CAG generally manages Clients assets using a long term approach (usually a minimum of 3-5 years) and a strategic asset allocation and diversification methodology. These recommendations and the implementation of them are based on discussions with each individual Client and in agreement with their Investment Policy Statement ("IPS") or Statement of Investment Objectives.

In order to help Clients understand more about the risks of investing, CAG is disclosing below some (but not all) of the possible risks of various types of securities we may use:

- Debt securities such as bonds and bond funds are subject to interest rate risk and may decline in value during periods with rising interest rates or lose value to the risk of issuer default.
- High yield securities are corporate debt securities rated below investment grade (sometimes referred to as Junk Bonds) and may have issuer default risk and interest rate risk.
- There are tax consequences for short-term buying and selling of securities wherein capital gains are taxed as ordinary income (CAG does not recommend this type of trading activity) but it may occur from time to time.
- Our investment style is a diversified long term approach that uses various asset classes and specifically designed portfolios for each Client. But those strategies will not protect against potential large losses or portfolio declines in the short or possibly even long term. These losses or declines may not be recovered for years or possibly ever if the Client changes their investment objectives or risk tolerance level during one of these periods.
- CAG rarely recommends structured products to its Clients. Structured products are a basket of investments that combine the upside potential of equities with the downside protection of fixed income. Although CAG seldom uses structured products as they are complex and difficult for the average investor to understand we have on occasion used them. Structured products are used to hedge and speculate on various markets and may be subject to loss due counterparty or issuer default or underperformance of the market.

DISCIPLINARY INFORMATION

An investment advisor must disclose material facts about any legal or disciplinary event that is material to a Client's or prospective Client's evaluation of the advisory business or of the

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

integrity of its management personnel. CAG does not have any legal, regulatory or disciplinary items to disclose or report

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATES

On a regular basis, James S. Hopson, Jr., CPA, CFP®, the principal executive of CAG, provides general financial advice to Clients. This may include personal financial planning or business financial planning. Mr. Hopson spends about 70-80 percent of his professional time in this area of work. Mr. Hopson also provides tax advice and counsel to other Clients on a regular basis. He spends about 20-30 percent of his time in this area.

Mr. Hopson prepares tax returns and renders other tax related services to Clients and their firms through his accounting firm, Hopson & Associates, CPA's. All of the services relating to Hopson & Associates' Clients are treated as separate and apart from CAG unless specifically agreed to in writing by the Client. Mr. Hopson receives compensation for services provided by Hopson & Associates.

Mr. Hopson is also active in other business endeavors. These include life insurance planning, selling of life, disability and long term care insurance, and the practice of accounting which does not involve the rendering of investment advice. In certain situations, he may assist with the structure and formation of new business entities as well as funding and design of the business. Compensation received is disclosed to all parties prior to their involvement in these other business endeavors.

Mr. Hopson is a licensed insurance agent who is contracted with various insurance companies. Commissions may be received if a Client elects to purchase life insurance, disability income insurance or annuity policies through him.

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

In addition to the ethical standards and requirements set forth by the Certified Financial Planning Board of Standards and the Texas State Board of Public Accountancy that must be followed by all members, CAG has implemented and maintains an internal Code of Ethics that must be read, acknowledged, signed and adhered to by all owners, executives, and employees. The CAG Code of Ethics sets forth standards of conduct expected of advisory personnel; requires compliance with federal securities laws; and, addresses conflicts that arise from personal trading by advisory personnel. Clients, or prospective Clients, may request a copy of the Code of Ethics at any time by contacting CAG or their Investment Advisor.

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

PERSONAL TRADING POLICIES

At times CAG and/or its Investment Advisor(s) may take positions in the same individual securities as Clients, and we will try at all time to avoid any conflicts with Clients. The firm and its Investment Advisor Representatives will generally avoid trading at the same times as Clients, trade after Client trades have been made or be “last in” and “last out” for the trading day when trading occurs in close proximity to Client trades. Mr. Hopson and most employees of CAG primarily invest in mutual funds, exchange traded funds and bonds just as we recommend our Client’s do. These types of investments are not impacted by timing of the investment since they only trade at the close of each business or trading day. We will not violate our fiduciary responsibilities to our Clients. Scalping (trading shortly ahead of Clients) is also prohibited. Should a conflict occur because of materiality issue (i.e. a thinly traded stock), disclosure will be made to the Client(s) at the time of trading. Incidental trading is not deemed to be a conflict (i.e. a purchase or sale which is minimal in relation to the total outstanding value, and as such would have negligible effect on the market price), would not be disclosed at the time of trading.

BROKERAGE PRACTICES

RECOMMENDATION OF CUSTODIANS AND BROKER-DEALERS

In cases where Client has engaged CAG to manage a portfolio of investments on a fee basis as described in “Investment Management Services” in this brochure, CAG will recommend the use of a broker/dealer firm to act as custodian of Client’s assets. CAG evaluates such firm’s ability to execute trades, transaction charges, account fees, financial stability and amount of account insurance before a recommendation is made.

Capital Advisory Group, Inc. (CAG) may recommend that Clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, to maintain custody of Clients’ assets and to effect trades for their accounts. Capital Advisory Group, Inc. is independently owned and operated and not affiliated with Schwab.

Schwab provides CAG with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor’s Clients’ assets are maintained in accounts at Schwab.

Services are not otherwise contingent upon Advisor committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab’s services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

available only to institutional investors or would require a significantly higher minimum initial investment.

For CAG's Client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

SOFT DOLLAR COMPENSATION

Schwab also makes available to CAG Inc. other products and services that benefit CAG but may not benefit its Clients' accounts. Some of these other products and services assist CAG in managing and administering Clients' accounts. Many of these services generally may be used to service all or a substantial number of CAG's accounts, including accounts not maintained at Schwab.

These include software and technology that provide access to Client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple Client accounts); provide research, pricing information and other market data; facilitate payment of CAG's fees from its Clients' accounts; and assist with back-office functions, recordkeeping and Client reporting.

Schwab also makes available to CAG other services intended to help CAG manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to CAG by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to CAG.

As a fiduciary, CAG endeavors to act in its Clients' best interests, and CAG's recommendation, preference but not an absolute requirement is that Clients maintain their assets in accounts at Schwab. This preference may be based in part on the benefit to CAG of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

As part of the programs offered by Schwab, the Advisor receives service-oriented benefits that it would not receive if it did not provide investment advice to Clients. While there is no direct affiliation or fee sharing arrangement between Schwab and CAG, economic benefits are received by CAG which would not be received if CAG did not have an established relationship with these companies. These benefits do not depend on the amount of transactions directed by CAG to Schwab but additional costs would apply if Advisor's Clients assets maintained at Schwab are not at least \$10 million. These benefits may include: a dedicated trading desk that services CAG's Clients, a dedicated service group and an account services manager dedicated to CAG's accounts,

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

access to a real time order matching system, ability to block Client trades, electronic download of trades, portfolio management software, access to an electronic interface, duplicate and batched Client statements, confirmations and year-end summaries, the ability to have advisory fees directly debited from Client accounts (in accordance with federal and state requirements), a quarterly newsletter, access to mutual funds, ability to have loads waived for CAG's Clients who invest in certain loaded funds when certain conditions are met and maintained, and the ability to have custody fees waived. Additionally, from time-to-time, Schwab may offer CAG cost saving opportunities or offer CAG's service providers a payment on CAG's behalf for using their portfolio management software (e.g. portfolio center). These payments are made on CAG's behalf and are made payable directly to the service provider, not to CAG.

In the course of providing our services, CAG or managers recommended by it, execute trades for our Clients through broker-dealers. When a Client has given us broker discretion, there is no restriction on the brokers we may select to execute Client transactions. Our general guiding principle is to trade through broker-dealers who offer the best overall execution under the particular circumstances. With respect to execution, we consider a number of factors, including if the broker has custody of Client assets, the actual handling of the order, the ability of the broker-dealer to settle the trade promptly and accurately, the financial standing of the broker-dealer, the ability of the broker-dealer to position stock to facilitate execution, our past experience with similar trades, and other factors which may be unique to a particular order. Based on these judgmental factors, we may trade through broker-dealers that charge fees that may be higher than the lowest available fees.

From time-to-time Advisor may make an error in submitting a trade order on a Clients behalf. When this occurs, Advisor may place a correcting trade with the broker-dealer which has custody of the Clients account. If an investment gain results from the correcting trade, the gain will remain in the Clients account unless the same error involved other Client account(s) that should have received the gain, it is not permissible for Client to retain the gain, or we confer with Client and Client decides to forego the gain (e.g. due to tax reasons). If the gain does not remain in Clients account and Charles Schwab and Co. Inc., ("Schwab") is the custodian, Schwab will donate the amount of any gain \$100 and over to a charity of its choosing. If a loss occurs greater than \$100, Advisor will pay for the loss. Schwab will maintain the loss or gains (if such gain is not retained in your account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in your account, they may be netted.

CAG is not affiliated with Charles Schwab the Investment Advisors of our firm are not registered representatives of Charles Schwab and do not receive any commissions or fees from recommending these services.

CAG understands its duty to obtain best execution for its Clients and considers all factors in making custodial recommendations to Clients. While CAG may not always obtain the lowest commission rate, CAG believes the rate is reasonable in relation to the value of the brokerage and research services provided.

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

CLIENT DIRECTED BROKERAGE

Client may direct brokerage to a specified broker/dealer other than the firm recommended by CAG. It is up to the Client to negotiate the commission rate, as CAG will not in these circumstances. The Client may not be able to negotiate the most competitive rate. As a result, the Client may pay more than the rate available through the broker/dealer used by CAG. In Client directed brokerage arrangements, the Client may not be able to participate in aggregated (“blocked”) trades, which may help reduce the cost of execution. Where the Client does not otherwise designate a broker/dealer, CAG recommends Schwab. Client is free to accept or decline this recommendation but doing so will limit the ability of CAG and their Investment Advisory in their ability to effectively and efficiently manage the Clients accounts.

TRADE AGGREGATION

While individual Client advice is provided each account, some Client trades may be executed as a block trade or aggregated. This may be beneficial in some cases to the Client therefore CAG “the Advisor” encourages its existing and new Clients to use the Advisor's "lead custodian" Charles Schwab. Only accounts in the custody of the lead custodian would have the opportunity to participate in aggregated securities transactions. All trades using the lead custodian will be aggregated and done in the name of the Advisor. The executing broker will be informed that the trades are for the account of the Advisor's Clients and not for the Advisor itself. No advisory account within the block trade will be favored over any other advisory account, and thus, each account will participate in an aggregated order at the average share price and receive the same commission rate. The aggregation should, on average, reduce slightly the costs of execution, and the Advisor will not aggregate a Client's order if in a particular instance the Advisor believes that aggregation would cause the Client's cost of execution to be increased. The Custodian will be notified of the amount of each trade for each account. The Advisor and/or its IA Reps may participate in block trades with Clients, and may also participate on a pro rata basis for partial fills, but only if Clients receive fair and equitable treatment.

REVIEW OF ACCOUNTS

CAG monitors the individual Client accounts held at Schwab Advisor Services via their website each day the market is open for trading problems, settlement issues, and alerts such as insufficient funds reports or other urgent actions. Each month CAG prepares a summary of all of its Clients aggregated portfolio performance (a global performance report) and reviews that performance in comparison to its other Clients on a monthly basis. This review is done monthly at a minimum by the Client's Investment Advisor to look for un-expected significant changes that are not in line with other portfolios.

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

More detailed Client account reviews are normally performed by the Client's Investment Advisor Representative prior to rebalancing, after modification of the Clients investment objectives and/or prior to a change in investments, managers or funds. The Chief Compliance Officer and other designated staff may also periodically monitor the portfolios to compare allocations to Investment Policy Statements or Objectives and for other supervisory purposes.

CAG offers its Clients an in-person portfolio review meeting on an annual or as needed basis at the Client or Investment Advisors specific request.

Financial plans prepared for Clients are based on a snapshot in time and no ongoing reviews are conducted unless formally requested and agreed to by us. No regular reviews are done because our services are designed to focus on a long-term plan. We recommend that Clients update plans every few years or as financial conditions warrant, but CAG will only do so under the terms of a new Agreement. We recommend Clients engage us on an annual or bi-annual basis to update or create a financial plan if they are concerned about not achieving their objectives or goals or want to assess how they are currently doing from a financial perspective.

All Clients receive standard brokerage account statements from custodians and brokerage firms. Clients also receive detailed written monthly and quarterly portfolio performance reports from CAG that show how the accounts are allocated and individual investment performance as well as other pertinent financial information.

CLIENT REFERRALS & OTHER COMPENSATION

In certain circumstances, CAG may execute a Solicitor's Agreement with individuals who are not employees. According to the terms of the Solicitor's Agreement, CAG will compensate individuals once the referral becomes a Client based on a percentage of revenues generated by the referred Client. In all circumstances, the solicitor is required to provide a disclosure to the prospective Client explaining the relationship between CAG and solicitor.

CAG may compensate for Client referrals although we do not do this as a general practice. We require all solicitors' agreements to be in compliance with the applicable laws and regulations when and if used. In addition, all applicable federal and state laws will also be observed in a referral situation. All Clients referred by solicitors will be given full written disclosures describing the terms and fee arrangements between the advisor and the solicitor prior to or at the time of entering into the advisory agreement. The compensation provided to the solicitor has no impact on the fees charged to the Client. CAG currently does not have or use any Solicitor's to assist it with business development at this time.

CUSTODY OF FUNDS

CAG does not take custody of Client's assets, but will recommend a suitable custodian to Client. For the service provided in initiating the account(s), transacting trades, wiring funds and/or other administrative functions, and maintaining custody of Client's assets, the custodian may charge certain fees. In cases where the custodian, usually Charles Schwab, charges a transaction fee, such fee may be lower than Schwab's published retail fee.

Clients will receive account statements normally on a monthly basis but must receive statements at least quarterly from the broker-dealer or other qualified custodian such as Charles Schwab. Client is urged to compare all custodial account statements against statements prepared by CAG for accuracy. Minor variations may occur because of reporting dates, accrual methods of interest and dividends, and other factors. The custodial statement is the official record of your account for all purposes.

In the case of certain fixed annuities or equity indexed annuities, statements are only issued by the insurance company annually. CAG will include the current account values of the annuities in Client statements as a convenience to the Client. The statement values will not reflect any surrender charges or other adjustments that might be applicable if the Client wanted to withdraw all or a portion of their funds.

Insurance statements are not always provided to CAG and therefore it is the responsibility of the Client to forward us any information to be included or updated in their report otherwise the last values provided will be reported. No fees are charged on the values of the accounts by CAG or any related party other than at the time of sale as previously discussed. Client is urged to compare all custodial account statements against statements prepared by CAG for accuracy.

For variable annuities previously owned by Client's CAG has recommended insurance companies and broker-dealers that charge lower fees that are usually fixed amounts per month for custody of the accounts. These accounts are updated in our portfolio management system on a daily basis by a download from the custodian and fees are calculated on the ending monthly balances per our fee schedule. Client is urged to compare all custodial account statements against statements prepared by CAG for accuracy.

INVESTMENT MANAGEMENT DISCRETION

CAG maintains full discretion under a limited power of attorney prepared by the Custodian of the Client's account and signed by the Client as to the type of securities and amount of securities to be purchased on behalf of the Client. Clients may impose restrictions on CAG to limit its discretionary authority in their Investment Policy Statement or Statement of Objectives. CAG and its Investment Advisor Representatives make decisions on purchases for Clients based on a review and comparison of Clients accounts with their written Investment Policy Statement or Statement of Investment objectives and CAG's current investment models, investment managers, mutual funds, individual securities or ETFs.

Form ADV Part 2A: Investment Advisor Brochure and Client Disclosure Document

2011

CAG does not have authority to withdraw funds or to take custody of Client funds or securities, other than under the terms of the Fee Payment Authorization clause in the custodial account agreement with the Client or a Standing Letter of Authorization with the custodian to transfer money between Clients similarly registered accounts. CAG may be authorized under a Standing Letter of Authorization with the custodian to transfer funds to or from the Client's other custodial accounts or bank accounts which may be revoked at the Client's or CAG's discretion.

VOTING CLIENT SECURITIES

PROXY VOTING POLICY

It is the policy of CAG, not to vote proxies on behalf of its individual or corporate Clients, but it does recommend the Client vote their own proxies. If authorized CAG does vote proxies for all accounts subject to the ERISA requirements. To that end, CAG will attempt to vote in a way that it believes, consistent with its fiduciary duty, a Client would, if the Client had the same information, professional knowledge and experience as CAG with the primary objective being to minimize risk and increase the return on the Client's investment in the security. CAG will provide assistance to Clients on an individual basis at their request to determine the most appropriate vote that is in their best interest as a shareholder.

A complete copy of CAG's Proxy Voting Policy is available to any Client upon request.

FINANCIAL INFORMATION

An investment advisor must provide financial information if a threshold of fee prepayments is met; there is a financial condition likely to impair the ability to meet contractual commitments; or, a bankruptcy within the past ten years. CAG does not have any disclosure items in this section and is not required to report financial information to the SEC or its Clients.

REQUIREMENTS FOR STATE REGISTERED INVESTMENT ADVISORS

Under the current rules CAG is currently required to be registered as an Investment Advisor with the Securities and Exchange Commission. Due to changes in these rules during 2010 and ongoing legislation changes CAG may ultimately be required to register with and be supervised the State Securities Board of Texas.