

ADV PART 2A

ITEM 1 – Cover Page

Houstoun Capital Management, Inc.

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Bethesda, MD 20814

(301) 941-1945

Brochure Date: February 27, 2012

This brochure provides information about the qualifications and business practices of Houstoun Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (301) 941-1945. 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.

Additional information about Houstoun Capital Management, Inc. is available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 2 – Material Changes

There are no material changes to the information contained in this annual update to our brochure during the past year. Our last annual update was March 31, 2011.

ITEM 3

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ITEM 4 – Advisory Business

Houstoun Capital Management, Inc., was incorporated in July 1997. The company is wholly owned by Richard A. Houstoun. He serves as President and principal portfolio manager. The firm provides investment counseling and portfolio management services to a select group of private individuals, partnerships, and trusts. As of December 31, 2011 assets under management were \$54.1 million.

The firm's sole source of income is from fees based upon the market value of our clients' assets. We serve no brokerage or insurance marketing functions, nor are we affiliated with any such organization.

Our investment approach is conservative. We require quality and long-term staying power in investments we select. Generally, we invest our client assets in a mix of common stocks, bonds and cash. The common stocks are typically those of US based large cap companies, and the bonds (fixed income) are those of the highest quality. Bonds used in portfolios typically have a credit rating of AA or better. This applies to US Treasuries, state and local municipal bonds, as well as corporate bonds. We also invest client assets in foreign companies that trade as American Depositary Receipts (ADRs) on the major US exchanges. In certain limited instances we will invest a small portion of client assets in mutual funds and/or Exchange Trade Funds (ETFs). Cash assets are typically placed in money market accounts, although sometimes they remain as simple bank deposits, or are held as bank certificates of deposit (CDs).

With regard to common stocks, we do not believe that formula methods or short-term trading programs produce consistent success. We believe that investors achieve success through long-term participation in companies with certain critical qualities. The most important of these qualities are excellent products and services, superior management, strong financials and sustainable business prospects.

An individual investment strategy is developed for each account, giving consideration to the client's need for appreciation, income, liquidity and the ability to absorb risk. Fully invested client portfolios most often resemble what is normally referred to as a balanced portfolio.

We use investment research from a variety of sources in the analysis of stocks, bonds, and other marketable securities to achieve our clients' financial goals. We coordinate our efforts with those of our clients' other advisers. We work with accountants, attorneys and other professionals to design and implement successful investment programs for our clients.

Although we often discuss companies with clients prior to placing trades in their accounts, it is not required as all clients to date have agreed to a discretionary advisory relationship. This allows the firm to execute trades in client accounts without prior discussion or explicit approval.

ITEM 5 – Fees and Compensation

Houstoun Capital Management, Inc. meets with each client to establish the desired level of reporting and the most appropriate custodial arrangement. We do not hold any client securities or funds, making it necessary for each client to contract independently for custodial services. The firm has experience with various custodians and is able to assist the client in making the necessary arrangements if the client so desires. The primary options available include either a brokerage firm, trust company or bank custody, each having its own level of services and fees.

Brokerage firms and trust companies require clients to pay separate fees for securities trading. In addition, Trust companies will also require clients to pay a trustee fee that the trust company will bill monthly or quarterly. The level of these fees may sometimes be negotiated by the clients, but typically depends on the amount of assets held at those firms.

Our own reporting to the client is scheduled at the end of each calendar quarter. At that time, we produce and deliver to the client a portfolio appraisal which lists and values all investment holdings. Following delivery of this appraisal, we schedule a meeting with the client to review the status of the portfolio and reaffirm all aspects of investment policy and operation. This schedule can be modified at the convenience of the client.

The firm's fees for investment advisory services are based on the value of assets under management at the end of each calendar quarter and are calculated on the basis of the following annual rates:

First \$1 million	1.00% per year
Next \$2 million	0.80% per year
Next \$7 million	0.60% per year
All additional	0.40% per year

Under the terms of the firm's standard form investment advisory agreement, the compensation to the firm is payable quarterly in advance. Clients receive an invoice with their quarterly portfolio appraisal and a calculation of the fee. By separate arrangement with the custodian, the firm is able to bill client accounts directly and does so based on the calculated fee due. If a client terminates the advisory relationship prior to the end of the quarter, any compensation paid in advance shall be refunded to the client in an amount equal to the quarterly fee prorated from the date of termination.

Fees are negotiable in certain instances.

ITEM 6 – Performance-Based Fees and Side-By-Side Management

Houstoun Capital Management, Inc. does not use or employ any performance based fees.

ITEM 7 – Types of Clients

Our clients are almost all private individuals, though we do manage accounts for trusts, family limited partnerships, pensions and profit sharing plans as well. Assets are mostly held in taxable accounts, though we also manage assets held in non-taxable accounts such as IRAs.

ITEM 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Houstoun Capital Management, Inc. provides investment counsel to long-term, quality portfolios. The following considerations serve as the foundation of our investment process:

People

We regard a stock investment as an investment in people. We attempt to know the management of as many of our companies as possible. The manner in which these managements view their customers, their vendors, their employees, their communities and, not least, their stockholders is important to us.

Quality

We live in an increasingly competitive world. Protective barriers are collapsing. To grow and prosper, companies must adopt the best management techniques, attract the best people, and produce the best products and services. We invest in companies that are leaders in their fields.

Value Creation

As long-term investors, we have powerful forces working for us. These forces can help produce value if we give them time. We should not expect immediate results. We do not invest in equities for objectives of less than five years.

Belief

One of the great fallacies of modern investing is the idea that investors can be objective. Stocks become solely instruments for performance, detached from the underlying businesses. Investors enjoy better results when they understand and believe in the businesses represented by their investments.

Appropriate Financial Instruments

Investors vary in their need for stability, income and growth. We seek out the most appropriate financial instrument for each need, i.e. high quality bonds for income, growth stocks for growth. We do not seek capital gains from bonds or significant income from stocks.

Risk

The experience of past market cycles has taught us that prevailing psychology is the investor's most underestimated enemy. Over long investment periods, markets have bouts with both euphoria and depression. These episodes carry prices away from realistic values, sometimes great distances away. To measure the extent and the direction of investor emotions, we utilize a proprietary model developed by Terry McDaniel & Company, a Texas based Investment Adviser, which produces a "rational price" for each of the companies in our portfolios. This "rational price" is a conservative, private, ongoing-business appraisal that excludes the variable of emotion. The resulting valuation complements our demanding fundamental requirements.

Process

After preliminary meetings with clients to ascertain their risk-tolerance, we begin implementation of our investment strategy. The best way to summarize our clients' investment results is to say that account performance lags the market during bullish (up) cycles and usually outperforms when equity markets are in bearish (down) cycles. The primary impact on performance is the extra allocation to bonds (fixed income) that our methodology often requires. The large capitalization companies that we buy for client accounts tend to grow slowly and steadily, paying out dividends along the way. The Fixed Income component of our clients' portfolios generally retains most of its value in down markets and can be sold to adjust portfolio allocation (i.e. purchase beaten down equities) at opportunistic moments.

ITEM 9 – Disciplinary Information

Neither the firm nor any employee has ever been involved in any disciplinary action, administrative or criminal, by the SEC or other federal authority, state authority, foreign authority, or private civil action.

ITEM 10 – Other Financial Industry Activities and Affiliations

Houstoun Capital Management, Inc. has no material relationships that impact our advice or service to clients.

ITEM 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Houstoun Capital has adopted a Code of Ethics, available upon client or prospective client request, which details our commitment to providing clients with the most suitable investment advice available. Our firm takes seriously the duty to provide clients with advice that serves their needs, not ours and not those of anyone else.

We believe in our advice and we follow it ourselves. The personal portfolios of our staff contain many of the same securities held in client accounts. As described previously, the companies in which we invest typically have market caps of billions of dollars, so personal account purchases have virtually no impact on the value received by clients. However, to eliminate any possibility of conflict, personal trades are either combined with client trades so that everyone receives the same price or personal trades are placed on a day following a client transaction.

ITEM 12 – Brokerage Practices

If a client does not express a preference for a broker-dealer, trust company, or other custodian, we recommend Charles Schwab & Co, Inc. (Schwab) for custody of client assets.

The factors involved in making the recommendation include:

- The daily provision of downloadable data regarding client transactions. Relationships with other broker-dealers may require us to manually enter transaction data into our portfolio management software and pay for the pricing of securities held in those accounts
- Competitive pricing for client trades and discounts on mutual funds
- Robust client service teams that enable us to facilitate client needs and resolve any account issues that clients might otherwise have to handle themselves
- Electronic storage of client statements, trade confirmations, tax documents
- Trading desk and online trading software application
- Free industry related research, surveys, and compliance reviews.

Other benefits that we receive from our relationship with Schwab, but which we may or may not use, include:

- Competitive pricing on our portfolio management software, PortfolioCenter. Originally, a stand-alone company when we first started licensing the software, Schwab subsequently purchased PortfolioCenter. Schwab may use pricing, software exclusivity, or other means to encourage us to maintain our relationship with them
- Free research created by Schwab as well as third party providers
- Discounts with other vendors.

Clients who do not custody their assets at Schwab may in fact benefit from our relationship with Schwab through the clients who do custody with Schwab. However, clients who choose to custody with another broker-dealer may incur higher transaction costs than they would pay at Charles Schwab & Co.

Typically, we use the custodian of a client's account to place all trades. However, for Texas municipal bond purchases, we frequently use a bond broker, Coastal Securities, located in Texas. We believe Coastal Securities' prices and knowledge of the Texas muni market are a tangible benefit to clients. In addition, we use them to supplement the offerings provided by a client's primary broker-

dealer. For Schwab clients, however, it is not necessary to use a broker other than Schwab as their proprietary bond trading platform has become much more robust in recent years.

In all of our dealings with broker-dealers, we do not receive any cash compensation for doing business with them, nor do we receive any personal benefits.

ITEM 13 – Review of Accounts

Client accounts are reviewed on a regular basis, at least quarterly, and frequently more often. Reviews may be initiated because of market activity, client request, or other event that merits a review. Our basic client asset allocation worksheet is updated monthly.

Client portfolio reviews are primarily conducted by Richard A. Houstoun, President, and Karl Hoffman, Associate.

In addition to the monthly account statement from their broker-dealer, each client receives a quarterly account appraisal from us along with their quarterly bill. The account appraisal includes the aggregated tax basis for each security held, current market value, and current yields for each security. Additional analysis, tailored to each client's situation, is provided at regular client meetings.

ITEM 14 – *Client* Referrals and Other Compensation

Client referrals are provided to us by clients and other individuals who feel well served by our services. We do not compensate any third party for referrals.

ITEM 15 – *Custody*

Per the definition of "custody" as determined by the Securities and Exchange Commission (SEC), we are considered to have custody of client assets because clients typically provide authorization for us to withdraw our quarterly management fee directly from their brokerage account. Broker-dealers are not responsible for confirming the veracity of our billing, so clients should review the quarterly invoice we send to them for accuracy. They should also confirm the accuracy of their account balance provided by us and compare it with the statement provided by their custodian.

ITEM 16 – Investment Discretion

As described more fully in ITEM 4, clients provide Houstoun Capital Management, Inc. with discretionary authority to place trades in their accounts. Although we frequently discuss trades with clients prior to placing them, we will also take action at our discretion. In planning investment strategies

with clients, the client may express restrictions, preferences, or other requirements on which securities may or may not be placed in their account. Generally, we are prepared to accommodate client directions, although certain preferences may prevent us from properly implementing our investment strategy. We assume discretionary investment authority only after clients have signed both the firm's Investment Advisory Agreement and completed the required documentation from their custodian.

ITEM 17 – Voting *Client* Securities

In selecting equities to purchase in client accounts, our process includes evaluating management's commitment to shareholder value. As such, we opt not to vote proxies for clients. We believe that management can best determine the right policies. If we determine that management is no longer focusing on shareholder value, we recommend selling the company.

We also find that clients have no wish to be inundated with the proxy materials coming from the companies they own. As such, we encourage clients to have us, the advisor, manage their proxies. If a client feels that they would like to have control over their proxies, those arrangements can be made with the custodian. However, we note to clients that if we have proxy control, they effectively lose authority over their shares, as there is no cost-effective mechanism for disaggregating their shares from our other client shares.

If clients wish to know more about specific proxy votes, or our general proxy voting policies, they are available upon request.

ITEM 18 – Financial Information

We are not required by the SEC to disclose a corporate balance sheet, but we are required to report a financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients. No such financial condition exists.

ADV PART 2B

ITEM 1 – Cover Page

Richard A. Houstoun
President
Houstoun Capital Management, Inc.
7272 Wisconsin Avenue
Suite 300
Bethesda, MD 20814

Supplement Date: February 27, 2012

This brochure supplement provides information about Richard A. Houstoun that supplements the Houstoun Capital Management, Inc. brochure. You should have received a copy of that brochure. Please contact Karl Hoffman if you did not receive Houstoun Capital Management, Inc.'s brochure or if you have any questions about the contents of this supplement.

ITEM 2 – Education Background and Business Experience

Richard A. Houstoun – Portfolio Manager/Analyst

Born
1962

Education
B.A. University of Texas, 1984
M.A. University of Texas, 1989

Business
Owner, Houstoun Capital Management, Inc., 1997

ITEM 3 – Disciplinary Information

Richard A. Houstoun is not and has not been subject to any civil or criminal action in any domestic, international, military court. Neither is he nor has he been the subject of any administrative proceeding before the Securities and Exchange Commission or other federal, state, or local regulatory agency. And neither is he nor has been the subject of proceedings with a self-regulatory agency or organization that issues professional designations.

ITEM 4 – Other Business Activities

Richard A. Houstoun is not actively engaged in any other business activity that has a material impact on the activities of Houstoun Capital Management, Inc. or its clients.

ITEM 5 – Additional Compensation

Richard A. Houstoun does not provide economic benefits to others for client referrals.

ITEM 6 – Supervision

Richard A. Houstoun maintains high ethical and legal standards at his firm.

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ITEM 1 – Cover Page

Karl S. Hoffman
Associate
Houstoun Capital Management, Inc.
7272 Wisconsin Avenue
Suite 300
Bethesda, MD 20814

Supplement Date: February 27, 2012

This brochure supplement provides information about Karl S. Hoffman that supplements the Houstoun Capital Management, Inc. brochure. You should have received a copy of that brochure. Please contact Karl Hoffman if you did not receive Houstoun Capital Management, Inc.'s brochure or if you have any questions about the contents of this supplement.

ITEM 2 – Education Background and Business Experience

Karl S. Hoffman – Associate

Born
1970

Education
B.A. Georgetown University, 1993
M.A. The University of Chicago, 1995

Business
Associate, Houstoun Capital Management, Inc., 1999 – Present

ITEM 3 – Disciplinary Information

Karl S. Hoffman is not and has not been subject to any civil or criminal action in any domestic, international, military court. Neither is he nor has he been the subject of any administrative proceeding before the Securities and Exchange Commission or other federal, state, or local regulatory agency. And neither is he nor has been the subject of proceedings with a self-regulatory agency or organization that issues professional designations.

ITEM 4 – Other Business Activities

Karl S. Hoffman is not actively engaged in any other business activity that has a material impact on the activities of Houstoun Capital Management, Inc. or its clients.

ITEM 5 – Additional Compensation

Richard A. Houstoun does not receive any economic benefit from a third party for the provision of investment advisory services.

ITEM 6 – Supervision

Investment advice, executed trades, and the personal trading activities of Karl Hoffman are reviewed by Richard Houstoun, the President and Chief Compliance Officer, (301) 941-1945.