



## **Key Investment Team**

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## **Form ADV, Part 2A Brochure**

May 30, 2012

This brochure provides information about the qualifications and business practices of Key Investment Team. If you have any questions about the contents of this brochure, please contact us at 818-205-1013 or [discover@KeyInvestmentTeam.com](mailto:discover@KeyInvestmentTeam.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Any reference to or use of the terms "registered investment adviser" or "registered," does not imply that Key Investment Team or any person associated with Key Investment Team has achieved a certain level of skill or training.

Additional information about Key Investment Team is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 - MATERIAL CHANGES

**Revised May 30, 2012**

The purpose of this page is to inform you of any material changes since the last annual update to this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

Key Investment Team ("KIT") reviews and updates our brochure at least annually to confirm that it remains current.

Material changes from KIT's brochure dated March 30, 2012:

Changes in regulation as a result of the Dodd–Frank Wall Street Reform and Consumer Protection Act passed in July 2010 required that KIT switch our registration from the SEC to applicable state securities regulators. KIT is licensed as an investment adviser with the State of California. Therefore, we have made amendments to this brochure and added Item 19 to reflect the requirements of a state-regulated adviser.

### ***Item 19 – Requirements for State-Registered Advisers***

Item 19 asks for a range of information about KIT's business and executive officers, much of which is already disclosed elsewhere in KIT's brochure that was previously provided to clients. The following categories of information are described in this Item:

Our principal executive officers and management persons – These individuals are listed under *Item 4 – Advisory Business*, and their education and business background are described in the brochure supplement, *Form ADV Part 2B*, which KIT provides to each client initially.

Other Business Activities – Any other activities or affiliations we have are described in *Item 10 – Other Financial Industry Activities and Affiliations*.

Performance-Based Fees – As described in *Item 6 – Performance-Based Fees and Side-by-Side Management* – we do not charge performance-based fees.

Legal and Disciplinary Issues – Added five events to Robert Venezia's disciplinary history based on information publicly available through the SEC Investment Adviser Search/FINRA Broker Check database systems.

Arrangements with Issuers of Securities - We have no arrangements with issuers of securities.

The above is only a summary of the material changes made to this brochure. You can read more details about these changes in the text of the brochure below (see the Table of Contents to find each section).

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

Key Investment Team (“KIT,” “we,” “our,” or “us”) is a privately owned corporation headquartered in Encino, CA. KIT is registered as an investment adviser with the State of California.

Robert Venezia, President and Founder, began his career in the brokerage business in 1982. He transitioned his brokerage practice, Robert Venezia Investment Group, Inc., to a fee-based registered investment advisory firm in 2002. In January 2007, Robert changed the firm name to Key Investment Team.

### Advisory Services Offered

KIT offers the following services to advisory clients:

#### Investment Management Services

KIT provides continuous and regular investment supervisory services on both a discretionary and non-discretionary basis. Robert Venezia works with clients and has the ongoing responsibility to select investments/make recommendations, based upon the objectives of the client.

KIT offers six different portfolio types for managing client accounts:

1. Conservative Strategy;
2. Moderate Strategy;
3. Balanced Strategy
4. Growth Strategy; and
5. Equity Income Strategy

We describe the investment strategy for each portfolio type in **Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss** below.

KIT will mostly utilize mutual funds when making purchases in new client accounts. Additionally, KIT’s investment selections/recommendations, depending on the individual investment objectives and needs of the client may include:

1. Exchange traded funds (ETFs)
2. U.S. individual stocks (Equity Income Strategy only)
3. Fixed income securities, including corporate bonds
4. Municipal securities
5. Exchange traded notes (ETNs)
6. Closed-end funds
7. Money market funds and cash
8. Options contracts on securities (Equity Income Strategy only)



KIT may also occasionally offer advice regarding additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. KIT may offer investment advice on any investment held by the client at the start of the advisory relationship. We describe the material investment risks for many of the securities that we recommend under the heading ***Specific Security Risks*** in ***Item 8*** below.

We discuss our discretionary and non-discretionary authority below under ***Item 16 - Investment Discretion***. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this item below. We describe the fees charged for investment management services below under ***Item 5 - Fees and Compensation***.

### *Consulting Services*

KIT offers an investment strategy consulting service for individuals, institutional money managers, and institutions in formulating their investment strategy. This may include updates and forecasts for various financial markets, portfolio reviews and recommendations and specific consultation services regarding investment and financial concerns. Consulting services may also include assistance in developing asset allocation models.

We describe the fees charged for consulting services below under ***Item 5 - Fees and Compensation***.

### *Limitations on Investments*

In some circumstances, KIT's advice may be limited to certain types of securities.

#### *Limitation by Plan Sponsor/Employer*

In the event KIT is managing assets within a retirement plan such as 401(k), 403(b), ORP or other employer plan, KIT is limited to those investment providers and investment options chosen by the plan administrator. Similarly, when we provide management services to participants in an employer-sponsored plan, the participant may be limited to investing in securities included in the plan's investment options. Therefore, KIT can only make recommendations to the client from among the available options.

#### *Limitation by Issuer*

In the event KIT is managing assets within an annuity, KIT is limited to those investment options made available through Charles Schwab & Co., Inc.

### *Mutual Fund Limitations*

#### *No Load Mutual Funds*

KIT generally limits recommendations of mutual funds to no load funds or equivalent investment products.

### TIPS Funds

KIT does not utilize individual Treasury Inflation Protected Securities (TIPS), but may recommend mutual funds and exchange traded funds that include TIPS within the underlying fund holdings.

### REIT Funds

KIT does not utilize individual real estate investment trusts (REITs), but may recommend mutual funds and ETFs that include REITs within the underlying fund holdings.

### *Limitation by Client*

KIT may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

### Non-Managed Assets

KIT may offer securities trading and inventory activities for cash and securities in a client's non-managed account, acting as an intermediary between the client and the custodian of the non-managed account. We do not provide investment advice regarding a client's non-managed assets or provide opinions as to the merits of any securities in non-managed accounts. We also do not make any judgments as to the appropriateness of assumed risk or suitability of any non-managed investment given the client's situation. KIT offers this service at no charge and at our discretion, in consideration of the client's other accounts that we manage.

## **Tailored Services and Client Imposed Restrictions**

KIT manages client accounts based on the investment strategy the client chooses, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. KIT applies the strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommendations/investment selections may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep KIT informed of any changes to their investment objectives or restrictions.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want KIT to buy or sell certain specific securities or security types in the account. KIT reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

## **Assets Under Management**

KIT offers management services of client assets in both discretionary and non-discretionary accounts on a continuous and regular basis. As of 01/13/2012, the total amount of assets under our management was:

Discretionary Assets	\$ 40,405,618
Non-Discretionary Assets	\$ 2,933,991
 Total Assets	 \$ 43,339,609

## ITEM 5 - FEES AND COMPENSATION

### Fee Schedule

#### Investment Management Services

KIT charges advisory fees for investment management services. KIT's advisory fees are charged based on a percentage of the client's total assets under management, per the following schedule:

Total Assets	Mutual Funds	Mutual Funds & Equities
First \$250,000	1.00%	1.25%
Next \$250,000	0.85%	1.10%
Next \$500,000	0.80%	1.05%
Next \$1,000,000	0.75%	1.00%
Next \$3,000,000	0.70%	0.95%
Next \$5,000,000	0.65%	0.90%
\$10,000,000+	Negotiable	Negotiable

Exchange-traded funds ("ETFs"), which trade on an exchange unlike a mutual fund, fall under the equity category for account fee purposes. Amounts invested in the Equity Income Strategy (described in **Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss**, below) will be charged 1.5% annually. Lower fees for comparable services may be available from other sources.

Some accounts may be under different fee schedules honoring prior agreements. Our standard fee schedule may be negotiable based on a number of factors, which include but are not limited to "grandfathered" accounts, related accounts, and other structures that we may consider in special situations. We also manage some family and related accounts, and certain family members of our clients without charge.

At our discretion, we may make pro-rations for additions or withdrawals greater than \$10,000 during a quarter. The client's quarterly fee calculation will reflect any pro-rated additions and/or reductions.

#### Consulting Services

KIT offers consulting services at an hourly rate of \$250.00, which may be negotiable depending on the nature and complexity of each client's circumstances. In these instances, we will provide an estimate of the total hours required at the start of the relationship. KIT may also provide services at a reduced rate or free of charge for certain clients (such as family members).

## Billing Method

### Investment Management Services

KIT's advisory fees are payable quarterly in advance at the beginning of each calendar quarter. We charge one fourth of the annual fee each quarter based on the market value of the client's portfolio as of the last day of the prior calendar quarter. The formula used for the calculation is as follows:  $(\text{Annual Rate}) \times (\text{Total Assets Under Management at Quarter-End}) / 4$ .

For new client accounts, the first payment is a pro-rata calculation due upon execution of the advisory agreement. The calculation will take into consideration the number of days remaining in the quarter and the initial value of the portfolio. The formula used to calculate the initial advisory fee would be as follows:  $(\text{Result of Quarterly Calculation}) \times (\text{Days Remaining in Quarter}) / (\text{Total Number of Days in Quarter})$ .

For advisory fee calculation purposes, a calendar quarter is a period beginning on January 1, April 1, July 1, or October 1 and ending on the day before the next quarter. A day is any calendar day including weekends and holidays. For new accounts and terminations, the number of days remaining in the quarter is the number of calendar days following the date a new account is funded or the date KIT receives a termination notification.

It is up to the client whether they wish to have the advisory fees withdrawn directly from their custodian account or pay by check. With client authorization, KIT will automatically withdraw KIT's advisory fee from the client's account held by an independent custodian. Typically, the custodian withdraws advisory fees from the client's account during the first month of each quarter based on KIT's instruction. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee for those clients who authorize the advisory fees to be withdrawn directly from their custodian account.

KIT will send a statement to each client who authorizes KIT to withdrawal fees directly from the custodian. The statement will show the amount of the fee, the value of the client's assets upon which we based the fee, and the specific manner in which we calculated the fee. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

KIT will send an invoice to all clients who choose not to have advisory fees withdrawn directly from their custodian account. The invoice is payable upon receipt and will include the fee calculation and amount due.

### Consulting Services

One-half of the total estimated hourly fees are due and payable at the time the client executes the agreement. The remainder of the fee is due upon the rendering of consulting services.

## Other Fees and Expenses

KIT's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. These charges are in addition to the fees client pays to KIT. See **Item 12 - Brokerage Practices** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, early redemption fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to KIT for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares.

A client could invest in a mutual fund directly, without using our services. In that case, the client would not receive the services we provide, which include assisting the client in determining which mutual fund or funds we feel are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and the advisory fees we charge to understand the total amount of fees the client will pay and evaluate the advisory services we provide accordingly.

## Termination

### Investment Management Services

Either party may terminate the agreement upon thirty (30) days written notice to the other party. The client may terminate the agreement by writing to KIT at our office. KIT will refund any prepaid, unearned advisory fees based on the effective date of termination. Upon termination of the agreement, we will send the client a prorated refund of unearned advisory fees using the following formula:  $(Fees\ Paid) \times (Days\ Remaining\ in\ Quarter) / (Total\ Number\ of\ Days\ in\ Quarter)$ .

Terminations will not affect liabilities or obligations from transactions initiated in client accounts prior to termination. In the event the client terminates the investment advisory agreement, KIT will not liquidate any securities in the account unless the client authorizes us to do so in writing. In the event of client's death or disability, KIT will continue management of the account until we are notified of client's death or disability and given alternative instructions by an authorized party.

### Consulting Services

KIT considers our consulting services to be complete, and the agreement terminated upon rendering of the agreed services. The client may terminate the agreement at any time by writing KIT at our office. Upon notice of termination, KIT will provide you with an invoice for actual time spent through the date of termination. If you paid fees in advance that were more than the amount due for services, KIT will refund any unearned fees to you.

## Other Compensation

KIT does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

KIT does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## ITEM 7 - TYPES OF CLIENTS

KIT offers discretionary and non-discretionary investment advisory services to individuals, high net worth individuals, trusts and estates, pension and profit sharing plans, individual participants of retirement plans, and charitable organizations.

### Account Requirements

Generally, KIT requires clients to maintain a minimum account size of \$100,000. Significant funds withdrawal may result in a request for additional fund deposits to continue with management of accounts. We generally combine family accounts to meet the account size minimum. KIT may reduce or waive the account minimum requirements at our discretion.

## ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis and Investment Strategies

#### General Investment Strategies

KIT offers personalized portfolio management through portfolios that often utilize global investment strategies. We use a four-part process, which integrates investment advisory services, research, and asset management.

- Part 1 - Identifying objectives
- Part 2 - Developing an investment strategy
- Part 3 - Implementing the investment strategy
- Part 4 - Oversight and review of performance and objectives

We believe that process, discipline, and communication are key to achieving client investment objectives. In our view, this requires a strong, dynamic relationship with each client. We diversify client portfolios across a selection of asset classes, fund managers, and investment styles for any combination of our portfolios the client selects. This blending emphasizes return potential, while attempting to manage risk. KIT utilizes this diversification approach in an effort to assist the client in reaching their long-term objective regardless of the short-term investment approach or style that is in favor at any given time.

KIT uses a three step “top-down” process to construct portfolios starting with a foundation in strategic asset allocation while providing flexibility through underlying security selection and global tactical asset allocation:

1. Portfolio optimization
  - a. Global tactical asset allocation
  - b. Security Selection
  - c. Strategic Asset Allocation
2. Eight tactical (timing) decisions that can lead to investment opportunities
3. A global approach to diversification by investing in multiple asset classes

### *Investment Portfolios*

KIT offers five different portfolio types for managing client accounts. Based on the client’s personal situation as described in the client’s Account Information and Investment Objectives form, we will generally recommend managing the client’s assets following one or more of the six portfolios. Our investment strategies for each portfolio are as follows:

#### *Conservative Strategy*

The Conservative Strategy seeks to provide high current income and low long-term capital appreciation. The target allocation for this portfolio is 20% stocks/80% bonds.

#### *Moderate Strategy*

The Moderate Strategy seeks to provide high current income and moderate long-term capital appreciation. The target allocation for this portfolio is 40% stocks/60% bonds.

#### *Balanced Strategy*

The Balanced Strategy seeks to provide above average capital appreciation and a moderate level of current income. The target allocation for this portfolio is 60% stocks/40% bonds with tactical asset allocation.

#### *Growth Strategy*

The Growth Strategy seeks to provide high long-term capital appreciation with low current income. The target allocation for this portfolio is 80% stocks/20% bonds with tactical asset allocation.

#### *Equity Income Strategy*

The Equity Income Strategy is a covered call writing strategy where the client holds a position in a stock and writes (sells) call options on that same stock in an attempt to generate additional income. We will often use this strategy when we have a short-term neutral view on the stock, and for this reason holds the stock long, and simultaneously has a short position via the option in an effort to generate income from the option premium. This strategy is non-diversified, and limited to investments in U.S. stocks and bonds. We also buy, hold, and sell stocks without covered option writing. Also, see ***Tactical Asset Allocation*** in this item below.

With the exception of the Equity Income Strategy, we primarily invest in mutual funds and ETFs for all of the above strategies.

### Allocation Policy

KIT deals fairly and objectively with our clients and does not favor one client or another when selecting investments/making recommendations, making changes to prior investment selections/recommendations. The following principals guide our allocation of investments/recommendations:

1. Equity securities recommended are widely held and very liquid;
2. We allocate investments/recommendations to each client based on the client's investment objective;
3. We allocate fixed income securities/recommendations taking into account a client's cash position and asset allocation;
4. The Portfolio Manager shall be responsible for ensuring equitable allocation of portfolio trades when we transact in the same security among two or more of our strategies.

### Methods of Analysis for Selecting Mutual Funds and Equities

#### *Fundamental Analysis*

Fundamental analysis typically involves analysis of management presentations, specialized research publications, and general news sources.

KIT uses fundamental analysis in the selection of mutual funds, including the analysis of fund managers and any competitive advantages. Additionally, in analyzing and selecting mutual funds, we use public and private research sources, fund reporting, and fund conference calls. We review key characteristics including historical performance, consistency of returns, risk level, and size of fund. Expense ratio and other costs are also significant factors in fund selection. KIT may also consider cyclical conditions, which is an analysis of business cycles to find favorable conditions for buying and/or selling a security.

#### *Technical Analysis*

The effectiveness of technical analysis depends upon the accurate forecasting of major price moves or trends in the securities traded by KIT. However, there is no assurance of accurate forecasts or that trends will develop in the markets we follow. In the past, there have been periods without discernible trends and similar periods will presumably occur in the future. Even where major trends develop, outside factors like government intervention could potentially shorten them.

Furthermore, one limitation of technical analysis is that it requires price movement data, which can translate into price trends sufficient to dictate a market entry or exit decision. In a trendless or erratic market, a technical method may fail to identify trends requiring action. In addition, technical methods may overreact to minor price movements, establishing positions contrary to overall price trends, which may result in losses. Finally, a technical trading method may under perform other trading methods when fundamental factors dominate price moves within a given market.



### Methods of Analysis for Selecting Debt Securities (Fixed Income)

KIT relies on credit rating agencies such as Standard & Poor's and Moody's to help determine the financial strength of issuing creditors. We also use relevant information from bond underwriters to help in analysis and selection of fixed income securities. Regarding fixed income investments, KIT considers the financial strength of the issuer, call provisions, liquidity factors, and bond insurance in selecting bonds for purchase.

### Specific Investment Strategies for Managing Portfolios

KIT may use tactical asset allocation, cash as a strategic asset, long-term holding, short-term trading, short-selling, option (covered call), trend, dollar-cost-averaging, defensive, hedging, leverage, and inverse/enhanced market strategies in the construction and management of client portfolios.

#### *Tactical Asset Allocation*

KIT may use a tactical asset allocation strategy in the shorter term to deviate from a client's long-term strategic asset allocation target in an effort to take advantage of what we perceive as market pricing anomalies or strong market sectors or to avoid perceived weak sectors. Once KIT achieves the desired short-term opportunities or perceives that opportunities have passed, we generally return a client's portfolio to the original strategic asset mix. There is no guarantee that this strategy will be successful and we make no promises or warranties as to the accuracy of our market analysis.

#### *Cash as a Strategic Asset*

KIT may use cash as a strategic asset and may at times move or keep client's assets in cash or cash equivalents. While high cash levels can help protect a client's assets during periods of market decline, there is a risk that our timing in moving to cash is bad upon either exit or reentry into the market and we miss positive market moves.

#### *Long-term Holding/Short-term Trading*

KIT does not generally purchase securities for clients with the intent to sell the securities within 30 days of purchase. However, there may be times when KIT will sell a security for a client when the client has held the position for less than 30 days.

#### *Covered Call Strategy*

A covered call is an option strategy whereby the investor holds a position in a stock and writes (sells) call options on that same stock in an attempt to generate increased income from the stock. KIT often employs covered calls when an investor has a short-term neutral view on the stock, and for this reason holds the stock long, and simultaneously has a short position via the option to generate income from the option premium. We also buy, hold, and sell stocks without covered option writing.

KIT uses this investment strategy to provide income, potentially create modest appreciation, and increase return by the sale of covered calls against the positions in the account. Clients should consider that the risk level in these accounts is somewhat reduced by the sale of the calls, but the upside potential of the account is also limited by the sale of the call.

### *General Options Strategies*

KIT may use covered call option strategies for client portfolios managed within our Equity Income Strategy. For a description of options, clients should read the option disclosure document, "Characteristics and Risks of Standardized Options," which can be obtained from any exchange on which options are traded, by calling 1-888-OPTIONS, or by contacting KIT.

### *Trend*

KIT may consider management of client assets using a trend following methodology based on the 200-day average and grounded in a strong sell discipline for all positions within the portfolio.

### *Dollar-Cost-Averaging*

Dollar cost averaging involves investing money in multiple installments over several months, to take advantage of price fluctuations in the attempt to get a lower average cost per share.

### *Defensive Strategies*

KIT may invest in any mutual fund, ETF, stock, bond, or cash security in the exercise of our discretion. KIT has full discretion in how we allocate client accounts among security types. Actual allocation will vary over time in accounts. At any time, client accounts may hold significant levels of cash and/or cash equivalents. Account allocations are likely to vary significantly compared to the overall equity markets as well as compared to any particular benchmark.

### *Inverse/Enhanced Market*

KIT may also use leveraged long and short mutual funds and/or exchange traded funds that are designed to perform in either an:

1. Inverse relationship to certain market indices (at a rate of one or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; or
2. Enhanced relationship to certain market indices (at a rate of one or more times the actual result of the corresponding index) as an investment strategy and/or in an effort to increase gains in an advancing market.

There can be no assurance that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct KIT, in writing, not to employ any or all such strategies for the client's accounts.

## **Investing Involves Risk**

Prior to entering into an agreement with KIT, the client should carefully consider:

1. That investing in securities involves risk of loss which clients should be prepared to bear;
2. That securities markets experience varying degrees of volatility;
3. That over time the client's assets may fluctuate and at any time be worth more or less than the amount invested; and

4. That clients should only commit assets that they feel are available for investment on a long-term basis.

## **Specific Security Risks**

### *General Risks of Owning Securities*

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of mutual funds in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### *Mutual Funds (Open-end Investment Company)*

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

The benefits of investing through mutual funds include:

#### **Professionally Managed**

Mutual funds are professionally managed by the fund.

#### **Diversification**

Mutual funds typically have the benefit of diversification, which is an investing strategy that generally sums up as "Don't put all your eggs in one basket." Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

#### **Affordability**

Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

#### **Liquidity**

At any time, mutual fund investors can readily redeem their shares at the current NAV, less any fees and charges assessed on redemption.

Mutual funds also have features that some investors might view as disadvantages:

### Costs Despite Negative Returns

Investors must pay fund expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

### Lack of Control

Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

### Price Uncertainty

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

### Different Types of Funds

When it comes to investing in mutual funds, investors have literally thousands of choices. Most mutual funds fall into one of three main categories; money market funds, bond funds (also called “fixed income” funds), and stock funds (also called “equity” funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

#### *Money Market Funds*

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, short-term investments issued by the U.S. Government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds.

#### *Bond Funds*

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

#### *TIPS Funds*

Treasury Inflation Protected Securities (TIPS) are inflation-indexed securities structured to remove inflation risk.

Some of the risks associated with bond funds include:

#### Credit Risk

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

#### Interest Rate Risk

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

#### Prepayment Risk

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to “retire” its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

#### *Stock Funds*

Although a stock fund’s value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than other types of investments. This is true for corporate bonds, government bonds, and treasury securities. Overall “market risk” poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons—such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same. For example:

#### Growth Funds

Growth funds focus on stocks that may or may not pay a regular dividend but have the potential for large capital gains. These funds favor companies expected to grow earnings, which could result in stock prices rising faster than the economy, and may be smaller and less seasoned companies. The smaller and less seasoned companies that may be in a growth fund have a greater risk of price volatility. Growth stocks, which can be priced on future expectations rather than current results, may decline substantially when expectations are not met or general market conditions weaken.

#### Equity Income Funds

Equity income funds stress current income over growth, and may invest in stocks that pay regular dividends. These funds are subject to dividend payout risk, which is the possibility that a number of the companies in which the fund invests will reduce or eliminate the dividend on the securities held by the fund.

### Small Cap Funds

Funds that invest in stocks of small companies involve additional risks. Smaller companies typically have higher risk of failure, and are not as established as larger blue-chip companies are. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

### Mid Cap Funds

Funds that invest in companies with mid-range market capitalizations involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

### Index Funds

Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all—or perhaps a representative sample—of the companies included in an index.

### International Funds

International investments are subject to additional risks, including currency fluctuation, political instability, and potential illiquid markets.

### Emerging Market Funds

Funds that invest in foreign securities of smaller, less-developed countries involve special additional risks. These risks include, but are not limited to currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

### Sector Funds

Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks. Funds that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risk. For example, products of companies that technology funds invest in may be subject to severe competition and rapid obsolescence.

### REIT Funds

REIT Funds include REITs within the underlying fund holdings. REITs primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development, and/or long-term mortgage loans. REIT investments include illiquidity and interest rate risk.

### *Real Estate Funds*

Investments in real estate funds are subject to the risks related to direct investment in real estate, such as real estate risk, regulatory risks, concentration risk, and diversification risk.

### *Alternative Investment Funds*

Alternative investments fall outside the three traditional asset types (stocks, bonds, and cash). Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives

contracts. Alternative investments funds are favored mainly because their returns have a low correlation with those of standard asset classes. Because of this, many large institutional funds such as pensions and private endowments have begun to allocate a small portion of their portfolios to alternative investments such as hedge funds.

### *Tax Consequences of Mutual Funds*

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that cannot be offset by a loss.

### *Exchange-Traded Funds (ETFs)*

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve returns similar to a particular market index, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

ETFs traditionally have been index funds, but in 2008, the U.S. Securities and Exchange Commission began to authorize the creation of actively managed ETFs.

### *Equity Securities*

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of equity securities fluctuate based on, among other things, events specific to their issuers and market, economic and other conditions. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

There may be little trading in the secondary market for particular equity securities, which may adversely affect the ability to dispose of those equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities.

### *Small Capitalization Equity Securities*

Investing in smaller companies may pose additional risks as it is often more difficult to dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their

stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

### Exchange-Traded Notes (ETNs)

An ETN is a senior, unsecured, unsubordinated debt security by an underwriting bank whose primary objective is to achieve the same return as a particular market index. Similar to other debt securities, the credit of the issuer is the only backing for ETNs, which have a maturity date. Although performance is contractually tied to whatever index the ETN is intended to track, ETNs do not have any assets, other than a claim against their issuer for payment according to the terms of the contract. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETNs trade throughout the day on an exchange. ETNs, as debt instruments, are subject to risk of default by the issuing bank as counter party. This is the major design difference between ETFs and ETNs: ETFs are only subject to market risk whereas ETNs are subject to both market risk and the risk of default by the issuing financial institution.

### Closed-end Fund

Closed-end funds do not continually offer their shares for sale. Rather, they sell a fixed number of shares at one time, after which the shares typically trade on a secondary market, such as the New York Stock Exchange or the NASDAQ Stock Market. Risk factors pertaining to closed-end funds vary from fund to fund. In addition to the risks described above in mutual funds, closed-end funds are subject to the following risks:

#### Valuation Risk

Common shares may trade above (a premium) or below (a discount) the net asset value (NAV) of the trust/fund's portfolio. At times, discounts could widen or premiums could shrink, which could either dilute positive performance or compound negative performance. There is no assurance that discounted funds will appreciate to their NAV.

#### Fluctuating Dividends in Actively Managed Portfolios

The composition of the trust/fund's portfolio could change, which, all else being equal, could cause a reduction in dividends paid to common shares. Certain closed-end funds invest in common stocks. There is no guarantee of dividends from these common stocks. Fluctuations in dividend levels over time, up and down, are to be expected.

### Options

An option is the right either to buy or sell a specified amount or value of a particular underlying interest at a fixed exercise price by exercising the option before its specified expiration date. An option that gives a right to buy is a call option. An option that gives a right to sell is a put option. Calls and puts are distinct types of options and the buying or selling of one type does not involve the other. The loss from the sale of a call that is not covered by a similar security could theoretically be unlimited depending on how much the security increases in value. However, we limit sales of calls in client accounts to covered positions only. Also, see **Covered Call Strategy** in this item above.



## Debt Securities (Bonds)

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

### Reinvestment Risk

When interest rates are declining, investors are reinvesting their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

### Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

### Interest Rate and Market Risk

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

### Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

### Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

### Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

It may be possible to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

Bond rating agencies may assign modifiers (such as +/-) to ratings categories to signify the relative position of a credit within the rating category. Unless we state otherwise, clients should include any security within that category without considering the modifier when reading their investment policies based on ratings categories.

### Municipal Bonds

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

#### Legislative Risk

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

#### Tax-Bracket Changes

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

#### Liquidity Risk

The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit

rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.

#### Credit Risk

Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

#### AMT

KIT invests in a variety of fixed income securities for clients. For those accounts seeking preservation of capital and current income exempt from taxation, where possible, we do not invest in municipal bonds subject to the Alternative Minimum Tax ("AMT").

#### Investing Outside the U.S.

Although we limit foreign investments to mutual funds and ETFs that hold foreign securities, the risks of foreign investing still apply to the underlying portfolios of funds. These risks may include currency controls and fluctuating currency values, and different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices. Additional factors may include changing local, regional, and global economic, political, and social conditions. Further, expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs can be contributors. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends can also lead to additional risk.

Investments in developing countries can further heighten the risks described above. A developing country may be in the earlier stages of its industrialization cycle with a low per capita gross domestic product ("GDP") and a low market capitalization to GDP ratio relative to those in the United States and the European Union. Historically, the markets of developing countries have been more volatile than the markets of developed countries.

Developing countries may have less developed legal and accounting systems. The governments of these countries may be more unstable and more likely to impose capital controls, nationalize a company or industry, place restrictions on foreign ownership and on withdrawing sale proceeds of securities from the country, and/or impose punitive taxes that could adversely affect security prices. In addition, the economies of these countries may be dependent on relatively few industries that are more susceptible to local and global changes. Securities markets in these countries are also relatively small and have substantially lower trading volumes. As a result, securities issued in these countries may be more volatile and less liquid than securities issued in countries with more developed economies or markets.

#### Cash and Cash Equivalents

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

## ITEM 9 - DISCIPLINARY INFORMATION

KIT and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. KIT does not have any disciplinary information to disclose under this item.

## ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

### **Affiliated Investment Adviser**

KIT is affiliated with Key Management Group, Inc. ("KMG"), a Nevada state registered investment adviser. KIT and KMG are under joint ownership and control. Robert Venezia is the majority shareholder of KMG.

#### Dual Portfolio Manager

Robert Venezia, KIT's Portfolio Manager, is also a portfolio manager for KMG. Robert Venezia devotes all of his time to the combined management of KIT and KMG clients, which are simultaneously managed with the same securities.

#### Dual CCO

Robert Venezia, KIT's Chief Compliance Officer, is also the Chief Compliance Officer of KMG. Robert Venezia allocates time as needed for each entity.

#### Referrals to Other Professionals

While we may refer clients to other professionals (see Item 14 below), we receive no compensation and do not believe that any of these referrals creates a material conflict of interest.

## ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### **Code of Ethics**

KIT believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. KIT's personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

KIT's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. KIT's personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions of insider trading, and adherence to applicable state and federal securities laws. Additionally, individuals who make securities recommendations to clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities are subject to personal trading policies governed by the Code of Ethics (see below).

KIT will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

### Personal Trading Practices

KIT or our personnel may place trades for our own accounts. The securities we trade in may be the same securities we recommend to clients, or they may be different securities that we do not feel are appropriate for clients. A conflict of interest could arise when KIT or our personnel trade in the same securities as clients. For example, we could have an incentive to purchase a security in our own account before recommending the security to a client, hoping that when the client traded, the price of the security would go up and we would benefit.

Due to the small size of trades placed for clients compared with the large volume traded in those securities each day, we do not believe that client trades could realistically move the price of a security and enable us to benefit from client trades. We place trades for our own accounts after clients. Because the price of securities fluctuates during the day (other than mutual funds), we could trade in a security on the same day as a client and receive a better or worse price than the client does. For mutual funds, if we traded on the same day as clients, we would receive the same price, since mutual funds do not trade but are issued and redeemed once daily at the fund's net asset value ("NAV"). As a fiduciary to our clients, we always seek to put our clients' interests first. Any difference in the prices we receive is never the result of our intentionally trading ahead of clients. KIT prohibits trading in a manner that takes personal advantage of our recommendations to clients.

## **Participation or Interest in Client Transactions**

The following items represent situations where a conflict of interest may exist between the client and KIT and our personnel:

### Cross Transactions

At times, a client may need to sell a security that we think is a good fit for another client's account. In this case, we may internally cross the security from the account of the selling client to the buying client's account. We will only do this when the proposed transaction is in the best interests of both clients. We do not "dump" a security into a client's portfolio just because another client needs to sell, nor do we decide to sell a security from one client's account just because another client needs a similar security. Usually, this situation comes up with fixed income securities where we can get a better deal for both clients by crossing the security instead of going into the open market to complete separate transactions.

If we can conduct a cross trade at a better price for our clients than Schwab's best quoted bid and ask price, we will do so. We will also take into account any additional fees charged to cross the security to ensure that the transaction is still appropriate for both clients. KIT does not act as broker for any cross transactions effected for clients, and will never receive any commissions or other compensation for these trades (other than our normal advisory fees for managing the accounts). KIT will provide details pertaining to all cross trades to participating clients prior to or promptly following each crossed transaction.

## ITEM 12 - BROKERAGE PRACTICES

### The Custodian and Brokers We Use

#### *Investment Management Services*

Clients must maintain assets in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated, and unaffiliated with Schwab. Schwab will hold client assets in a brokerage account, and buy and sell securities when we instruct them to. While we recommend that clients use Schwab as custodian/broker, client must decide whether to do so and open accounts with Schwab by entering into account agreements directly with them. We do not open accounts for clients, although we may assist them in doing so.

#### *How We Select Brokers/Custodians*

We seek to recommend a custodian/broker who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

1. Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
2. Capability to execute, clear, and settle trades (buy and sell securities for client accounts)
3. Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
4. Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
5. Availability of investment research and tools that assist us in making investment decisions
6. Quality of services
7. Competitiveness of the price of those services (commission rates, other fees, etc.) and willingness to negotiate the prices
8. Reputation, financial strength, and stability
9. Prior service to KIT and our other clients
10. Availability of other products and services that benefit us, as discussed below (see ***Products and Services Available to Us From Schwab***)

#### *Client Brokerage and Custody Costs*

For our clients’ accounts that Schwab maintains, Schwab generally does not charge separately for custody services. However, Schwab receives compensation by receiving transaction fees or other fees on trades that it executes or that settle into clients’ Schwab accounts. We have determined that having Schwab execute trades is consistent with our duty to seek “best execution” of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see ***How We Select Brokers/Custodians***).

### *Products and Services Available to Us from Schwab*

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like us. They provide KIT and our clients with access to its institutional brokerage, trading, custody, reporting, and related services, many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts; others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we do not have to request them) and at no charge to us.

Following is a more detailed description of Schwab's support services:

#### Services That Benefit Our Clients

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit our clients and their accounts.

#### Services That May Not Directly Benefit Our Clients

Schwab also makes available to us other products and services that benefit us but may not directly benefit our clients or their accounts. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

1. Provide access to client account data (such as duplicate trade confirmations and account statements)
2. Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
3. Provide pricing and other market data
4. Facilitate payment of our fees from our clients' accounts
5. Assist with back-office functions, recordkeeping, and client reporting

#### Services That Generally Benefit Only Us

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

1. Educational conferences and events
2. Consulting on technology, compliance, legal, and business needs
3. Publications and conferences on practice management and business succession
4. Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

#### Our Interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions.

KIT primarily supports our selection of Schwab by the scope, quality, and price of Schwab's services (see ***How We Select Brokers/Custodians***, above) and not Schwab's services that benefit only us.

#### Brokerage for Client Referrals

KIT does not receive client referrals from any broker-dealer or third party in exchange for using that broker-dealer or third party.

#### Directed Brokerage

KIT is prepared to work with any broker-dealer that the client chooses. The above disclosure outlines the custodian/broker that we recommend. Clients who direct us to use a particular custodian/broker for all trading may pay higher commission charges. Under these circumstances, KIT may not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. Clients should further understand that when they direct KIT to use a specific custodian/broker, disparity in transaction charges might exist between the transaction costs charged to other clients. KIT may not be able to aggregate orders to reduce transaction costs and clients who direct us to use a particular custodian/broker may receive less favorable prices.

KIT will not allow clients to direct us to use a specific broker-dealer to execute transactions. Clients must use the broker-dealer/custodian that they selected to custody their account(s) to execute transactions. Not all investment advisers require their clients to trade through specific brokerage firms. By requiring clients to use Schwab, KIT believes we may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio.

Since we require most of our clients to maintain their accounts with Schwab, it is also important for clients to consider and compare the significant differences between having assets custodied at another broker-dealer, bank or other custodian prior to opening an account with us. Some of these differences include, but are not limited to; total account costs, trading freedom, transaction fees/commission rates, and security and technology services.

Clients with employer-plan, 401(k), or annuity accounts are not required to use Schwab and may appoint a custodian of their choosing.



## Aggregation and Allocation of Transactions

KIT may aggregate transactions if we believe that aggregation is consistent with the duty to seek best execution for our clients and is consistent with the disclosures made to clients and terms defined in the client investment advisory agreement. No advisory client will be favored over any other client, and each account that participates in an aggregated order will participate at the average share price (per custodian) for all transactions in that security on a given business day. KIT does not aggregate trades of our personnel with those of client accounts.

## ITEM 13 - REVIEW OF ACCOUNTS

### Managed Account Reviews

KIT reviews each client account in the context of the client's stated objectives and guidelines. While we continuously monitor the underlying securities within our portfolios, we review client accounts on an ongoing basis, including at the time of any purchase or sale of securities, upon receipt of each confirmation of a transaction, and upon receipt of each monthly brokerage statement of the client's account. Additionally, we generally review accounts with clients at least semi-annually. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment. Robert Venezia, President, performs all reviews.

### Account Reporting

Each client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period. In addition, KIT provides written reports detailing performance in client accounts on a quarterly basis.

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

### Schwab Support Products and Services

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (see **Item 12 – Brokerage Practices**). We do not base particular investment advice, such as buying particular securities for our clients, on the availability of Schwab's products and services to us.

### Solicitation/Referral Arrangements

If an unaffiliated or an affiliated solicitor introduces a client to KIT, we may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements.

If an unaffiliated solicitor introduces a client to KIT, that solicitor will disclose the nature of the solicitor relationship with KIT at the time of the solicitation. In addition, the solicitor will provide each prospective client with a copy of this brochure, and a copy of the written disclosure statement from the

solicitor to the client disclosing the terms and conditions of the arrangement between KIT and the solicitor, including the compensation the solicitor will receive from KIT. Any affiliated solicitor of KIT will disclose the nature of the relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of this brochure.

### Outside Compensation

KIT may refer clients to unaffiliated professionals for specific needs, such as Certified Professional Accountants and/or Certified Financial Planners. In turn, these professionals may refer clients to KIT for advisory or consulting services. KIT will not refer clients to financial planners and other investment advisers unless they are licensed, registered or exempt from registration as an investment adviser. We do not have any agreements with individuals or companies that we refer clients to, and we do not receive any compensation for these referrals. However, it could be concluded that KIT is receiving an indirect economic benefit from this practice, as the relationships are mutually beneficial. For example, there could be an incentive for us to recommend services of firms who refer clients to KIT.

KIT only refers clients to professionals we believe are competent and qualified in their field, but it is ultimately the client's responsibility to evaluate the provider, and it is solely the client's decision whether to engage a recommended firm. Clients are under no obligation to purchase any products or services through these professionals, and KIT has no control over the services provided by another firm. Clients who chose to engage these professionals will sign a separate agreement with the other firm. Fees charged by the other firm are separate from and in addition to fees charged by KIT.

If the client desires, KIT will work with these professionals or the client's other advisers (such as an accountant or attorney) to help ensure that the provider understands the client's investments and to coordinate services for the client. KIT does not share information with an unaffiliated professional unless first authorized by the client.

## **ITEM 15 - CUSTODY**

KIT does not take physical custody of client funds or securities. For the convenience of the client, we will set up quarterly fee deduction ability from the client's account, when authorized by the client. KIT will not have custody of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account if all of the following requirements are met:

1. Clients' accounts are held by a qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution).
2. Clients will receive statements directly from their qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of KIT's fee.
3. Each billing period, we send clients a statement showing the value of the client's assets upon which we based the fee, the amount of the fee, and how we calculated the fee.

4. We send the amount of our fee to the custodian.
5. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Clients should carefully review the account statements they receive from the qualified custodian. When clients receive statements from KIT as well as from the qualified custodian, they should compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive a statement from their qualified custodian at least quarterly should also notify us.

## ITEM 16 - INVESTMENT DISCRETION

### Discretionary Management

For accounts under discretionary management, we have full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. KIT will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker/custodian for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority within their accounts when they sign the custodian paperwork. Certain client-imposed conditions may limit our discretionary authority, such as where the client prohibits transactions in specific security types. See also ***Tailored Services and Client Imposed Restrictions*** under ***Item 4***, above.

### Non-Discretionary Management

For accounts under non-discretionary management, we will make recommendations to clients on what securities or products to buy or sell, and it is up to the client to approve our recommendations. Once we receive approval from the client to go forward, we will place the trades in the client's account. Clients give us trading authority over their accounts when they sign the custodian paperwork.

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

KIT does not accept or have the authority to vote client securities. KIT will not be deemed have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

### ERISA

For accounts subject to ERISA, an authorized plan fiduciary other than KIT will retain proxy voting authority. Our investment advisory agreement and/or the plan's written documents will evidence and outline this authority.

### *Mutual Funds*

The investment adviser that manages the assets of a registered investment company (i.e., mutual fund) generally votes proxies issued on securities held by the mutual fund.

### *Class Actions*

KIT does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. However, if a client notifies us that they wish to participate in a class action, we will provide the client with any transaction information pertaining to the client's account needed for the client to file a proof of claim in a class action.

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. KIT does not require the prepayment of more than \$500 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

## **ITEM 19 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

We have disclosed material conflicts of interest required under Section 260.238(k) of the California Corporate Securities Law of 1968 regarding KIT, our representatives or our employees, which we expect could be reasonably impair the rendering of unbiased and objective advice.

### **Principal Executive Officers and Management Persons**

We list the principal executive officers and management persons of KIT are listed under ***Item 4 - Advisory Business***, above. A description of their education and business background is included in the brochure supplement, Form ADV Part 2B, which we provide to clients initially. Clients can also get a copy of the brochure supplement for KIT's officers at any time by contacting us at the address or phone number on the cover page of this brochure.

### **Other Business Activities**

KIT's sole business is providing investment advice. KIT is affiliated with Key Management Group, Inc. ("KMG"), a Nevada state registered investment adviser. KIT and KMG are under joint ownership and control. Robert Venezia is the majority shareholder of KMG.

We discuss this relationship under ***Item 10 - Other Financial Industry Activities and Affiliations***, above.

### **Performance-Based Fees**

KIT does not charge performance-based fees or other fees based on a share of capital gains or on capital appreciation of the assets of a client.

## Legal and Disciplinary Issues

Robert Venezia has the following disclosures to report:

Nature of Dispute	Allegations	Resolution	Comments
NASD Arbitration: Customer Dispute	Omission of facts, unsuitability	Award/Judgment: \$48,100 awarded to client on 01/23/1991	Award was made based on SEC settlement with Prudential Securities. Robert Venezia was not at fault. Robert Venezia sold the limited partnership based on factual material presented to him from Prudential.
NASD Arbitration: Customer Dispute	Clients alleged unsuitable investments and overconcentration in technology stocks. Claimed damages of \$709,303	Settled: \$225,000 awarded to client on 06/20/2007	Settled at mediation for \$225,000 to avoid the costs and uncertainties of litigation. Mr. Venezia is disputing this item with Wells Fargo Bank, N.A. (successor to Wachovia Securities, LLC, a defendant in the arbitration) and petitioning for removal from the FINRA disclosure system.
NASD Arbitration: Customer Dispute	Clients alleged unauthorized, unsuitable, and excessive trading (i.e., churning). Alleged compensatory damages of \$265,000	Settled: \$62,500 awarded to client on 11/10/2003	Settled. Mr. Venezia is disputing this item with Wells Fargo Bank, N.A. (successor to Wachovia Securities, LLC, a defendant in the arbitration) and petitioning for removal from the FINRA disclosure system.
NASD Arbitration: Customer Dispute	Customer complained he was allowed to invest \$145,000 in 1987 in unsuitable VMS limited partnerships	Settled: \$89,999 awarded to client on 04/22/1992	Claimed loss of \$145,000.00 settled for \$89,999.00. VMS limited partnerships were sponsored by Prudential Securities, Inc. As the real estate market deteriorated and problems developed at VMS, the partnership value also deteriorated. Award was made based on SEC settlement with Prudential Securities. Robert Venezia was not at fault. Robert Venezia sold the product based on factual material presented to him from Prudential Securities.
NASD Arbitration: Customer Dispute	Account related-breach of contract; trading disputes-transfers; account related-negligence; fraudulent activity- breach of fiduciary duty	Award/Judgment: Closed-by-hearing on 01/31/2005. All claims denied in full	All claims denied in full.

## Arrangements with Securities Issuers

KIT and our personnel have no relationships or arrangements with issuers of securities.

# **Form ADV, Part 2B Brochure Supplement**

**Robert Venezia**

## **Key Investment Team**

16830 Ventura Blvd., Suite 224  
Encino, CA 91436  
(818) 205-1013

**May 30, 2012**

This brochure supplement provides information about Robert Venezia that supplements the Key Investment Team brochure. You should have already received a copy of that brochure. Please contact Cay Boychenko, Client Services Administrator, if you did not receive our brochure or if you have any questions about the contents of this supplement.

Additional information about Robert Venezia is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Robert Venezia**, Founder, Chief Executive Officer, Chief Investment Officer, b. 1954

### *Education:*

- B.S., Business Administration, Loyola Marymount University, 1976
- M.B.A., Finance, Loyola Marymount University, 1978

### *Business Background:*

Robert Venezia, Founder, began his career in the brokerage business in 1982. He transitioned his brokerage practice, Robert Venezia Investment Group, Inc., to a fee-based registered investment advisory firm in 2002. In January 2007, Robert changed the firm name to Key Investment Team.

## ITEM 3 - DISCIPLINARY INFORMATION

Robert Venezia has past disciplinary history. You may find the details of the disciplinary history on the Investment Adviser Public Disclosure (IAPD) page at <http://www.adviserinfo.sec.gov>. Choose “Investment Adviser Representative (IAR) and then enter Robert Venezia. After the authentication screen, you will need to select the correct individual if more than one name is listed (locate Key Investment Team in the “Current Employer” column for reference). Additional information may also be available on FINRA’s Broker Check system at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

## ITEM 4 - OTHER BUSINESS ACTIVITIES

Robert Venezia’s only business is providing investment advice through KIT and KMG.

## ITEM 5 - ADDITIONAL COMPENSATION

Robert Venezia’s only business is providing investment advice through KIT and KMG.

## ITEM 6 - SUPERVISION

Robert Venezia is the President of KIT and supervises all employees. He can be reached by calling (818) 205-1013.

## ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Robert Venezia has the following disclosures to report:

Nature of Dispute	Allegations	Resolution	Comments
NASD Arbitration: Customer Dispute	Omission of facts, unsuitability	Award/Judgment: \$48,100 awarded to client on 01/23/1991	Award was made based on SEC settlement with Prudential Securities. Robert Venezia was not at fault. Robert Venezia sold the limited partnership based on factual material presented to him from Prudential.
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NASD Arbitration: Customer Dispute	Account related-breach of contract; trading disputes-transfers; account related-negligence; fraudulent activity- breach of fiduciary duty	Award/Judgment: Closed-by-hearing on 01/31/2005. All claims denied in full	All claims denied in full.



# Privacy Policy

We recognize that our relationship with current and prospective clients is based on integrity and trust. Respect for our clients' privacy is highly valued at KEY INVESTMENT TEAM, and your privacy is important to us. We work hard to maintain your privacy and we are very careful to preserve the private nature of our relationship with you, and we understand that the trust you have placed in us is conditional upon our proper and secure handling of your personal information.

## Information Key Investment Team Receives

Key Investment Team may collect non-public personal information about you from the following sources:

- ♦ Information we receive from you or your authorized representative on applications and other forms, in interviews, or by other means; and
- ♦ Information about your transactions with us, our affiliates, or others.

## Information Key Investment Team Shares

We do not rent, sell, trade or otherwise release or disclose any personal or financial information about you. We do not provide client information to persons or organizations outside of KEY INVESTMENT TEAM who are doing business on their own behalf, for marketing purposes or otherwise.

We may disclose all of the information we collect, as described above, to agents, brokers and representatives who service you, and to companies as necessary to effect, administer, or process a transaction, or for maintaining or servicing your account, and as otherwise permitted by law.

Otherwise, we do not disclose any non-public personal information about our clients or former clients to anyone, unless authorized by the client or as required by federal or state law.

## Information Access and Security

We restrict access to non-public personal information about you to those employees at KEY INVESTMENT TEAM who need to know that information to provide the products or services to you. We maintain physical, administrative, and technical procedural safeguards that comply with federal standards to guard your non-public personal information.

We require anyone to whom we disclose your personal information to protect its confidentiality and to use it solely for the purpose for which it is disclosed. We enter into contractual agreements with non-affiliated third parties that prohibit the third parties from disclosing or using your non-public information other than to carry out the purposes for which we disclosed the information.

## Changes to Our Privacy Policy

KEY INVESTMENT TEAM reserves the right to modify or remove parts of this privacy statement at any time. We will notify you in advance of any changes that may affect your rights under this policy statement.

Should you have any questions regarding our privacy procedures, please feel free to contact Cay Boychenko at (818) 205-1013.