

# Capital Investment Services, Inc.

SEC File Number: 801 – 61135

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

**Dated: March 19, 2016**

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This Brochure provides information about the qualifications and business practices of Capital Investment Services, Inc. (“Capital Investment”). If you have any questions about the contents of this Brochure, please contact us at (484) 356-9444 or [wayneg@capitalsvs.com](mailto:wayneg@capitalsvs.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.

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

References herein to Capital Investment as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

## **Item 2           Material Changes**

Since the previous Annual Amendment filing on March 6, 2015, this Brochure has been materially amended at Item 5.A. to disclose the new fee schedule generally imposed for investment advisory services. Please refer to Item 5.A. for more detail in this respect.

**ANY QUESTIONS: Capital Investment's Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective client may have regarding this Brochure.**

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#### Item 4            Advisory Business

- A. Capital Investment is a corporation formed on April 7, 1997 in the Commonwealth of Pennsylvania. Capital Investment became registered as an Investment Adviser in May 2002. Capital Investment is principally owned by Wayne Guidotti, John Guidotti and Aaron Guidotti. John Guidotti is Capital Investment's President.
- B. As discussed below, Capital Investment offers to its clients (individuals, high net worth individuals, charitable organizations, etc.) investment advisory services, and, to the extent specifically requested by a client, financial planning and related consulting services.

##### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage Capital Investment to provide discretionary and/or non-discretionary investment advisory services on a *fee* basis. Prior to engaging Capital Investment to provide investment advisory services, clients are required to enter into an *Investment Advisory Agreement* setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the fee that is due from the client. Before Capital Investment provides investment advisory services, an investment adviser representative will ascertain each client's investment objectives. Capital Investment will then allocate and/or recommend that the client allocate investment assets consistent with the designated investment objectives. Once allocated, Capital Investment provides ongoing monitoring and review of account performance and asset allocation as compared to client investment objectives and may rebalance the account on a discretionary basis as a result of such reviews.

##### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

To the extent specifically requested by a client, Capital Investment *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis. Prior to engaging Capital Investment to provide planning or consulting services, clients are generally required to enter into a *Financial Planning and Consulting Agreement* with Capital Investment setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to Capital Investment commencing services. If requested by the client, Capital Investment may recommend the services of other professionals for implementation purposes, including certain of Capital Investment's representatives in their individual capacities as registered representatives of Royal Alliance Associates, Inc. ("Royal"), an SEC registered and FINRA member broker-dealer, and as licensed insurance agents. (*See* disclosures at Items 5.E. and 10.C.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Capital Investment. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify Capital Investment if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Capital Investment's previous recommendations and/or services. **Conflict of Interest:** The recommendation by Capital Investment's representatives that a client purchase a

securities or insurance commission product presents a ***conflict of interest***, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Capital Investment's representatives. Clients are reminded that they may purchase securities or insurance products recommended by Capital Investment through other, non-affiliated insurance agents or broker-dealers. **Capital Investment's Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective client may have regarding the above conflicts of interest.**

## **MISCELLANEOUS**

**Limitations of Non-Investment Consulting/Implementation Services.** To the extent requested by the client, Capital Investment *may* provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither Capital Investment, nor any of its representatives, serves as an attorney or accountant and no portion of Capital Investment's services should be construed as legal or accounting services. Accordingly, Capital Investment does not prepare estate planning documents or tax returns. To the extent requested by a client, Capital Investment may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, etc.), including representatives of Capital Investment in their separate individual capacities as registered representatives of *Royal*, and as licensed insurance agents, as discussed in Items 5.E. and 10.C. below. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Capital Investment. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note-Conflict of Interest:** The recommendation by Capital Investment's representative that a client purchase a securities or insurance commission product through Capital Investment's representative in his separate and individual capacity as a registered representative of *Royal* and/or as an insurance agent, presents a ***conflict of interest***, as the receipt of commissions may provide an incentive to recommend investment or insurance products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any securities or insurance commission products through such a representative. Clients are reminded that they may purchase securities and insurance products recommended by Capital Investment through other, non-affiliated broker-dealers and/or insurance agencies.

**Variable Annuity Products and Retirement Plans.** Capital Investment provides investment management services to certain clients relative to: (1) variable annuity products that they may own, or (2) their employer-sponsored retirement plans. In so doing, Capital Investment either directs (or recommends) the allocation of client assets among the various investment subdivisions which comprise the variable annuity product or the investment alternatives available under the retirement plan.

**Retirement Plan Rollovers-No Obligation / Conflict of Interest:** A client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in his/her former employer's plan, if permitted, (ii) roll over the assets to his/her new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). Capital Investment may recommend an investor roll over plan assets to an IRA managed by Capital Investment. As a result Capital Investment and its representatives may earn an asset-based fee (see **Please Note** below). In contrast, a recommendation that a client or prospective client leave his or her plan assets with his/her former employer or roll the assets to a plan sponsored by a new employer will generally result in no compensation to Capital Investment (unless clients engage Capital Investment to monitor and/or manage the account while maintained at his/her employer). Capital Investment has an economic incentive to encourage a client to roll plan assets into an IRA that Capital Investment will manage **or** to engage Capital Investment to monitor and/or manage the account while maintained at the client's employer. There are various factors that Capital Investment may consider before recommending a rollover, including but not limited to: (i) the investment options available in the plan versus the investment options available in an IRA, (ii) fees and expenses in the plan versus the fees and expenses in an IRA, (iii) the services and responsiveness of the plan's investment professionals versus Capital Investment's, (iv) protection of assets from creditors and legal judgments, (v) required minimum distributions and age considerations, and (vi) employer stock tax consequences, if any. **No client is under any obligation to roll over plan assets to an IRA managed by Capital Investment or to engage Capital Investment to monitor and/or manage the account while maintained at the client's employer. Please Note:** If Capital Investment's engagement will include the management of the client's retirement account per the same fee schedule set forth in Item 5 below, regardless of custodian or the client's decision to process a rollover, the above economic incentive to recommend a rollover is generally not present. **Capital Investment's Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective client may have regarding its prospective engagement and the corresponding conflict of interest presented by such engagement.**

**Unaffiliated Private Investment Funds.** As indicated above, Capital Investment representatives, in their separate individual capacities, also serve as registered representatives of Royal Alliance Associates ("Royal"), an SEC-registered and FINRA member broker-dealer. These representatives, in their separate individual capacities as registered representatives of Royal, may recommend private investment funds on a commission basis. **Capital Investment does not include private investments sold through Royal as part of assets under management for purposes of calculating the Capital Investment's investment advisory fee. Capital Investment's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).**

**Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each

prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Please Also Note: Valuation.** In the event that Capital Investment references private investment funds owned by the client on any supplemental account reports prepared by Capital Investment, the value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the fund sponsor. If no subsequent valuation post-purchase is provided by the Fund Sponsor, then the valuation shall reflect the initial purchase price (and/or a value as of a previous date), or the current value(s) (either the initial purchase price and/or the most recent valuation provided by the fund sponsor). If the valuation reflects initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than original purchase price. The client's advisory fee shall be based upon reflected fund value(s).

**Conflict of Interest:** The recommendation by a Capital Investment representative that a client purchase a securities commission product, including a private investment fund, presents a **conflict of interest**, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Capital Investment's representatives. **Capital Investment's Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

**Conflict of Interest:** The recommendation by Capital Investment's representatives that a client purchase a securities commission product presents a **conflict of interest**, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Capital Investment's representatives. Clients are reminded that they may purchase securities recommended by Capital Investment through other, non-affiliated broker-dealers. **Capital Investment's Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

**Client Obligations.** In performing its services, Capital Investment shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify Capital Investment if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Capital Investment's previous recommendations and/or services.

**Account Data Aggregation / Reporting Services.** Capital Investment, in conjunction with the services provided by a third-party vendor, may also provide periodic comprehensive reporting services which can incorporate all of the client's investment assets, including those investment assets that are not part of the assets managed by Capital Investment (the "Excluded Assets"). **The client and/or his/her/its other advisors that maintain trading authority, and not Capital Investment, shall be exclusively responsible for the investment performance of the Excluded Assets.** Unless otherwise specifically agreed to, in writing, Capital Investment's service relative to the Excluded Assets is limited to reporting only. The sole exception to the above shall be if Capital Investment is specifically engaged to monitor and/or allocate the assets within the client's 401(k) account maintained away at the custodian directed by the client's employer. As such, except with respect to the client's 401(k) account (if applicable), Capital Investment does not maintain any trading authority for the Excluded Assets. Rather, the client and/or the client's designated other investment professional(s) maintain supervision, monitoring and trading authority for the Excluded Assets. If Capital Investment were asked to make a recommendation as to any Excluded Assets, the client is under absolutely no obligation to accept the recommendation, and Capital Investment shall not be responsible for any implementation error (timing, trading, etc.) relative to the Excluded Assets. In the event the client desires that Capital Investment provide investment management services for the Excluded Assets, the client may engage Capital Investment to do so pursuant to the terms and conditions of the *Investment Advisory Agreement* between Capital Investment and the client.

**Disclosure Statement.** A copy of Capital Investment's written disclosure statement as set forth on Part 2 of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement* or *Financial Planning and Consulting Agreement*.

- C. Capital Investment shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, Capital Investment shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on Capital Investment's services.
- D. Capital Investment does not participate in a wrap fee program.
- E. As of December 31, 2015 Capital Investment had \$120,246,898 in assets under management on a discretionary basis.

## Item 5 Fees and Compensation

- A. The client can determine to engage Capital Investment to provide discretionary and/or non-discretionary investment advisory services on a negotiable *fee* basis.

### INVESTMENT ADVISORY SERVICES

If a client determines to engage Capital Investment to provide discretionary and/or non-discretionary investment advisory services on a negotiable *fee* basis, Capital Investment's annual investment advisory fee shall be generally based upon a percentage (%) of the market value and type of assets placed under Capital Investment's management (between negotiable and 1.00%) as follows:

| <u>Market Value of Portfolio</u>   | <u>% of Assets</u> |
|------------------------------------|--------------------|
| From \$0 - \$500,000               | 1.00%              |
| From \$500,000 - \$1,000,000       | 0.90%              |
| From \$1,000,00 - \$3,000,000      | 0.75%              |
| From \$3,000,000 - \$5,000,000     | 0.65%              |
| From \$5,000,000 - \$10,000,000    | 0.50%              |
| Remaining Amount Over \$10,000,000 | Negotiable         |

Capital Investment, in its sole discretion, may reduce its investment advisory fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

### FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

To the extent specifically requested by a client, Capital Investment *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis. Capital Investment's planning and consulting fees are negotiable, but generally range from \$4,000 to \$10,000 on a fixed fee basis, and from \$150 to \$350 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

- B. Clients may elect to have Capital Investment's advisory fees deducted from their custodial account. Both Capital Investment's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of Capital Investment's investment advisory fee and to directly remit that management fee to Capital Investment in compliance with regulatory procedures. In the limited event that Capital Investment bills the client directly, payment is due upon receipt of Capital Investment's invoice. Capital Investment shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, Capital Investment shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*") or Pershing Advisor Solutions, LLC ("*Pershing*"), both of which are SEC-registered and FINRA member broker-dealers, serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* and *Pershing* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds,



commissions are charged for individual equity and fixed income securities transactions). In addition to Capital Investment's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

- D. Capital Investment's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. The *Investment Advisory Agreement* between Capital Investment and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, Capital Investment shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.
- E. **Securities Commission Transactions.** In the event that the client desires, the client can engage certain of Capital Investment's representatives, in their individual capacities as registered representatives of *Royal*, an SEC registered and FINRA member broker-dealer, to implement investment recommendations on a commission basis. In the event the client chooses to purchase investment products through *Royal*, *Royal* will charge brokerage commissions to effect securities transactions, a portion of which commissions *Royal* shall pay to Capital Investment's representatives, as applicable. The brokerage commissions charged by *Royal* may be higher or lower than those charged by other broker-dealers.
1. **Conflict of Interest:** The recommendation that a client purchase a commission product from *Royal* presents a **conflict of interest**, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Capital Investment's representatives. **Capital Investment's Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective may have regarding the above conflict of interest.**
  2. **Please Note:** Clients may purchase investment products recommended by Capital Investment through other, non-affiliated broker dealers or agents.
  3. Capital Investment does not receive more than 50% of its revenue from advisory clients as a result of commissions or other compensation for the sale of investment products Capital Investment recommends to its clients.
  4. With the exception of variable annuity sub-accounts, for which Capital Investment charges an advisory fee three (3) years after receiving a commission of the sale of the variable annuity (if any), when Capital Investment's representatives sell an investment product on a commission basis, Capital Investment does not charge an advisory fee in addition to the commissions paid by the client for such product. When providing services on an advisory fee basis, Capital Investment's representatives do not also receive commission compensation for such advisory services. **However**, a client may engage Capital Investment to provide investment management services on an advisory fee basis and separate from such advisory services purchase an investment product from Capital Investment's representatives on a separate commission basis.

## **Item 6            Performance-Based Fees and Side-by-Side Management**

Neither Capital Investment, nor any supervised person of Capital Investment, accepts performance-based fees.

## **Item 7            Types of Clients**

Capital Investment's clients shall generally include individuals, high net worth individuals, and charitable organizations. Capital Investment does not generally require an annual minimum fee or minimum asset level for investment advisory services. Capital Investment, in its sole discretion, may reduce its investment advisory fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

## **Item 8            Methods of Analysis, Investment Strategies and Risk of Loss**

- A. Capital Investment may utilize the following methods of security analysis:
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)

Capital Investment may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)

**Please Note: Investment Risk.** Investing in securities involves risk of loss that clients should be prepared to bear. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Capital Investment) will be profitable or equal any specific performance level(s).

- B. Capital Investment's methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks. To perform an accurate market analysis Capital Investment must have access to current/new market information. Capital Investment has no control over the dissemination rate of market information; therefore, unbeknownst to Capital Investment, certain analyses may be compiled with outdated market information, severely limiting the value of Capital Investment's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

Capital Investment's primary investment strategies - Long Term Purchases and Short Term Purchases - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example longer term investment strategies require a longer investment time period to allow for the strategy to potentially

develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

Currently, Capital Investment primarily allocates investment management assets of its client accounts among mutual funds, exchange traded funds, individual bonds, and/or bond funds on a discretionary basis.

In addition, when consistent with investment objectives and on a limited basis, Capital Investment may recommend that clients allocate investment assets to real estate investment trusts ("REITs"). **Please Note:** REITs are subject to risks generally associated with investing in real estate, such as: possible declines in the value of real estate; adverse general and local economic conditions; possible lack of availability of mortgage funds; changes in interest rates; and environmental problems. In addition, REITs are subject to certain other risks related specifically to their structure and focus such as: dependency upon management skills; limited diversification; the risks of locating and managing financing for projects; heavy cash flow dependency; possible default by borrowers; the costs and potential losses of self-liquidation of one or more holdings; the possibility of failing to maintain exemptions from securities registration; and, in many cases, relatively small market capitalization, which may result in less market liquidity and greater price volatility.

## **Item 9            Disciplinary Information**

Capital Investment has not been the subject of any disciplinary actions.

## **Item 10           Other Financial Industry Activities and Affiliations**

- A. **Registered Representatives of Royal.** As disclosed above in Item 5.E, certain of Capital Investment's representatives are also registered representatives of *Royal*, an SEC registered and FINRA member broker-dealer.
- B. Neither Capital Investment, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. **Registered Representatives of Royal.** As disclosed above in Item 5.E, certain of Capital Investment's representatives are registered representatives of *Royal* in their separate and individual capacities. Clients may therefore choose to engage Wayne Guidotti and/or John Guidotti, in such separate and individual capacities as registered representatives of *Royal* to implement investment recommendations on a commission basis.

**Licensed Insurance Agents.** Certain of Capital Investment's representatives, in their individual capacities, are licensed insurance agents, and may recommend the purchase of certain insurance-related products on a commission basis. As referenced in Item 4.B above, clients can engage certain of Capital Investment's representatives to effect insurance transactions on a commission basis.

**Conflicts of Interest:** The recommendation by Capital Investment’s representatives that a client purchase a securities or insurance commission product presents **conflicts of interest**, as the receipt of commissions may provide an incentive to recommend securities or insurance products based on commissions to be received, rather than on a particular client’s need. No client is under any obligation to purchase any securities or insurance commission products from Capital Investment’s representatives. Clients are reminded that they may purchase securities or insurance products recommended by Capital Investment through other, non-affiliated insurance agents or broker-dealers. **Capital Investment’s Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective client may have regarding the above conflicts of interest.**

- D. Capital Investment does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

#### **Item 11            Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

- A. Capital Investment maintains an investment policy relative to personal securities transactions. This investment policy is part of Capital Investment’s overall Code of Ethics, which serves to establish a standard of business conduct for all of Capital Investment’s Associated Persons that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, Capital Investment also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Capital Investment or any person associated with Capital Investment.

- B. Neither Capital Investment nor any related person of Capital Investment recommends, buys, or sells for client accounts, securities in which Capital Investment or any related person of Capital Investment has a material financial interest.
- C. Capital Investment and/or representatives of Capital Investment *may* buy or sell securities that are also recommended to clients. This practice may create a situation where Capital Investment and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if Capital Investment did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of Capital Investment’s clients) and other potentially abusive practices.

Capital Investment has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of Capital Investment’s “Access Persons”. Capital Investment’s securities transaction policy requires that an Access Person of Capital Investment must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10)

days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date Capital Investment selects; provided, however that at any time that the Firm has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. Capital Investment and/or representatives of Capital Investment *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where Capital Investment and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, Capital Investment has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Capital Investment's Access Persons.

## **Item 12      Brokerage Practices**

- A. In the event that the client requests that Capital Investment recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Capital Investment to use a specific broker-dealer/custodian), Capital Investment generally recommends that investment management accounts be maintained at *Schwab* or *Pershing*. Prior to engaging Capital Investment to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Capital Investment setting forth the terms and conditions under which Capital Investment shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Capital Investment considers in recommending *Schwab*, *Pershing* (or any other broker-dealer/custodian to clients) include historical relationship with Capital Investment, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Capital Investment's clients shall comply with Capital Investment's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Capital Investment determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Capital Investment will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Capital Investment's investment management fee. Capital Investment's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Capital Investment may receive from *Schwab, Pershing* (or another broker-dealer/custodian, investment manager, platform, vendor, product or fund sponsor) without cost (and/or at a discount) support services and/or products, certain of which assist Capital Investment to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Capital Investment may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Capital Investment in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist Capital Investment in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Capital Investment to manage and further develop its business enterprise.

Capital Investment's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* or *Pershing* as a result of this arrangement. There is no corresponding commitment made by Capital Investment to *Schwab, Pershing*, or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement

**Capital Investment's Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

2. Capital Investment does not receive referrals from broker-dealers.
3. Capital Investment does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Capital Investment will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Capital Investment. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

**Please Note:** In the event that the client directs Capital Investment to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing

arrangements that may be available through Capital Investment. Higher transaction costs adversely impact account performance. **Please Also Note:** Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

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- B. To the extent that Capital Investment provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless Capital Investment decides to purchase or sell the same securities for several clients at approximately the same time. Capital Investment may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Capital Investment's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Capital Investment shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13          Review of Accounts**

- A. For those clients to whom Capital Investment provides investment supervisory services, account reviews are conducted on a quarterly basis by Capital Investment's Principals and/or representatives. All investment supervisory and financial planning clients are advised that it remains their responsibility to advise Capital Investment of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues, investment objectives and account performance with Capital Investment on an annual basis, as applicable.
- B. Capital Investment *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian or Capital Investment for the client accounts. Certain clients for whom Capital Investment provides investment advisory services will also receive a quarterly report from Capital Investment summarizing account activity and performance.

### **Item 14          Client Referrals and Other Compensation**

- A. As referenced in Item 12.A.1 above, Capital Investment may receive indirect economic benefits from *Schwab* or *Pershing* (or another broker-dealer/custodian, investment platform, product or fund sponsor), including support services and/or products without cost or at a discount.

Capital Investment's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab, Pershing*, or any other individual or entity as a result of this arrangement. There is no corresponding commitment made by Capital Investment to *Schwab, Pershing*, or any other individual or entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

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- B. Capital Investment does not compensate, directly or indirectly, any person, other than its representatives, for client referrals.

## **Item 15      Custody**

Capital Investment shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian or Capital Investment for the client accounts. Certain clients for whom Capital Investment provides investment advisory services will also receive a quarterly report from Capital Investment summarizing account activity and performance.

**Please Note:** To the extent that Capital Investment provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by Capital Investment with the account statements received from the account custodian.

**Please Also Note:** The account custodian does not verify the accuracy of Capital Investment's advisory fee calculation.

## **Item 16      Investment Discretion**

The client can determine to engage Capital Investment to provide investment advisory services on a discretionary basis. Prior to Capital Investment assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming Capital Investment as the client's attorney and agent in fact, granting Capital Investment full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage Capital Investment on a discretionary basis may, at anytime, impose restrictions, **in writing**, on Capital Investment's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe Capital Investment's use of margin, etc).



## **Item 17      Voting Client Securities**

- A. Capital Investment does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact Capital Investment to discuss any questions they may have with a particular solicitation.

## **Item 18      Financial Information**

- A. Capital Investment does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. Capital Investment is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. Capital Investment has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: Capital Investment's Chief Compliance Officer, Wayne Guidotti, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**