

SMS Capital Management, Inc.  
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**Firm Brochure**

**Form ADV Part 2A**

This brochure provides information about the qualifications and business practices of SMS Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 713-623-1534 or [info@smscap.com](mailto:info@smscap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration with the SEC or any state securities authority does not imply a certain level of skill or training.

Additional information about SMS Capital Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for SMS Capital Management is 124788.

Brochure prepared on March 25, 2018

## Item 2 – Material Changes

This section will disclose any material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our firm's fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

Currently, our brochure may be requested at our office at 713-623-1534 or [info@smscap.com](mailto:info@smscap.com).

Additional information about SMS Capital Management is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with SMS Capital Management who are registered, or are required to be registered, as investment adviser representatives of SMS Capital Management.

Material changes since our last brochure filing on February 15, 2017:

- SMS Capital Management, Inc. has a pending application with the Securities and Exchange Commission ("SEC") and is expected to be approved in April 2018. The firm will no longer be registered with the State of Texas Securities Division. This is due to our level of Assets Under Management, as Registered Investment Advisors with above \$100 million of Assets Under Management are subject to SEC, rather than State, regulation and oversight.
- SMS Capital Management has changed its legal entity structure from a Limited Liability Company to an S Corporation. There has not been any ownership change, only the legal structure and name to SMS Capital Management, Inc.

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#### **Item 4 - Advisory Business**

SMS Capital Management, Inc. ("SMS"), based in Bellaire, Texas and founded in 2003, provides financial advisory and investment management services primarily to individuals, but may also provides services to fiduciaries and trustees of pension plans, endowments, trusts, family limited partnerships, estates and corporations. The firm's principal owner is Steven M. Sheldon, CFA.

SMS is incorporated under the laws of the State of Texas. In addition, SMS is registered with the Securities and Exchange Commission and subject to its rules and regulations.

#### **Investment Management Services**

SMS' investment management and advisory services include discretionary management of clients' assets according to the clients' stated objectives and any limitations, established in the investment advisory agreement and Investment Policy Statement (IPS) between SMS and each client.

SMS will first meet with the prospective client (or in a telephone meeting) at a complimentary session to determine a potential fit. A subsequent meeting, along with the client filling out the SMS risk assessment and client information sheet, will be required to determine an appropriate asset allocation for funds to be managed by SMS. Once the client's personalized investment strategy is developed, SMS generally invests client's assets in mutual funds, Exchange Traded Funds (ETF's), and individual securities (stocks and bonds) depending on the individual client's risk profile and investment objectives.

SMS builds and maintains diversified portfolios for its clients. Asset allocation shifts and rebalancing over the portfolio may be gradual or more abrupt due to changing market conditions, changes in the client's situation, or SMS' view of the relative attractiveness of various asset classes and positions held in the client's account. Also, SMS makes note of any restrictions each client may have with regard to restricted securities or whether the client is trying to limit exposure to particular securities or market sectors.

SMS may also provide retirement projections and educational funding advice for those clients that request it.

Below are some of the services included as a part of Investment Management Services:

- Determine target asset allocation given stated objectives
- Create investment policy statement (IPS)
- Create and provide ongoing portfolio management with customization
- Consolidated household quarterly performance reporting

- Recommend portfolio allocation for held-away assets (i.e. company retirement plans, 529 plans, etc.) to ensure all accounts are working together to achieve stated household objectives

### **Financial Planning Services**

Financial planning services may include:

- Personal financial plan utilizing interactive website application
- Preparation of a personal net worth statement detailing household assets and liabilities
- Cash flow analysis/budgeting
- Retirement plan projections and scenario analysis – Will I have enough to retire, how much do I need to save each year, when can I retire, how should I allocate my funds to reach my goals, and under what assumptions? Sensitivity analysis and “what if” analysis.
- Social security and other benefits analysis
- Educational funding assessment and recommendations with annual updates (if Fidelity 529 plan then ongoing management)
- Review and evaluation of equity compensation planning

As of December 31, 2017, SMS managed \$109,100,000 on a discretionary basis and \$1,400,000 on a non-discretionary basis.

### **Item 5 – Fees and Compensation**

#### **Investment Management Services**

SMS is a fee-only firm and as such does not accept commissions or any other form of compensation from non-client third party sources. Fees for investment management services are based on a percentage of the assets in the client's account. Fees are charged quarterly, in advance on the first day of the quarter, based on the market value of the account on the last business day of the previous quarter. Fees are rounded to the nearest dollar. Fees may also be negotiable, depending on the circumstances of a particular client's account and may be cumulative with regard to related accounts, upon SMS' approval.

There are two plans for Investment Management Services:

#### **X Plan – For clients with \$500,000 or more of discretionary assets under management**

Tiered AUM fee schedule below applies. If a client has less than \$500,000 then can have access to full suite of services for a \$5,000 per year retainer (payable \$1,250 quarterly).

### **Y Plan - For clients with less than \$500,000 of discretionary assets under management**

Tiered AUM fee schedule below applies. All services included except for initial retirement planning and projections for \$1,500; annual reviews and update reports for \$500/year.

Subject to a minimum \$2,500 annual fee paid quarterly (\$625 per quarter).

Annual Fee Schedule for Asset Management:

1.25% \$500,000 or less of assets under management

1.00% Balances from \$500,001 to \$1.5 million

0.75% Over \$1.5 million

Comparable services for lower fees may be available from other sources. Fees for the initial quarter will be prorated based upon the number of calendar days in the calendar quarter that the advisory agreement is in effect. Consulting services are included in these fees for asset management services with the exception of unique circumstances that may require a separate agreement for financial planning services (description and fees are discussed below). If the situation warrants separate financial planning fees, it will be discussed upfront and a separate agreement will be negotiated.

As authorized in the client agreement, the account custodian withdraws SMS' advisory fees directly from the clients' accounts according to the custodian's policies, practices, and procedures. The custodian in turn remits these fees to SMS. The custodial statement includes the amount of any fees paid directly to SMS to manage the account. SMS also sends quarterly invoices detailing the manner and amount of advisory fees to all clients. You should compare the statement we send to your custodian/broker-dealer's statement and verify the calculation of fees. Your custodian/broker-dealer does not verify the accuracy of fee calculations. If the account does not contain sufficient funds to pay advisory fees, SMS has limited authority to sell or redeem securities in sufficient amounts to pay advisory fees. With the exception of IRA accounts, clients may reimburse the account for advisory fees paid to SMS. In select circumstances, client may pay investment management fees by check. In cases where there are multiple accounts being managed by SMS, Client may direct SMS to deduct total fee from a specific account.

SMS' investment management fees are in addition to the management fee and other internal expenses incurred by any investment management company or money market fund in which the client's money is invested. Such fees are not shared with SMS and are compensation to the fund manager. Clients are urged to read the mutual fund prospectus prior to investing. SMS' fees are in addition to any brokerage fees charged by the account custodian/broker. Sometimes SMS will purchase securities or funds that require a commission paid to the broker. SMS takes this fee into account when determining which investments are most appropriate for the client.

## **Financial Planning Services**

In certain instances where the client may not request ongoing investment management services supervisory services, SMS will charge the client an hourly fee for financial planning services. The hourly fee ranges from \$150 - \$300 depending on the scope and complexity of the services requested, and this fee may be negotiable between SMS and the client. Clients will be invoiced monthly in arrears for financial planning services. Similar financial planning services may be available elsewhere for a lower cost to the client.

Clients may terminate investment advisory services obtained from SMS, without penalty, upon written notice within five (5) business days after entering into the advisory agreement with SMS. The client is responsible for any fees and charges incurred by the client from third parties as a result of maintaining the account such as transaction fees for any securities transactions executed and account maintenance or custodial fees. Thereafter, the client may terminate advisory services upon 30 days' written notice delivered to and received by SMS. Clients who terminate investment advisory services during a quarter are charged a prorated advisory fee based on the date of SMS' receipt of client's written notice to terminate. Any earned but unpaid fees are immediately due and payable. If a relationship is terminated during a quarter for which advisory fees have been prepaid, client will get a refund based on pro-rated fees from date of termination for any material unearned fees as determined by the Adviser.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

SMS does not charge performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or appreciation of the assets of a client. Our fees are calculated as described in Fees and Compensation section above, and are not charged on the basis of performance of your advisory account.

## **Item 7 – Types of Clients**

SMS provides its services to individuals, including high net worth and high income earners. SMS may also provide services to fiduciaries and trustees of pension plans, endowments, trusts, custodial accounts, family limited partnerships, estates and corporations.

SMS has a minimum client relationship of \$500,000, but will make exceptions after evaluating the prospective client's situation, needs and objectives.

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

SMS relies on variety of informational sources including government economic publications, industry research reports, public SEC filings, financial newspapers, company press releases and presentations, as well as other third party and primary research.

SMS' methods of analysis and investment strategies incorporate the client's needs and investment objectives, time horizon, and risk tolerance. SMS is not bound to a specific investment strategy for the management of investment portfolios, but considers the risk tolerance levels determined at the account opening, as well as monitoring risk tolerance on an on-going basis. Examples of methodologies that our investment strategies may incorporate include:

**Asset Allocation** – Asset Allocation is a broad term used to define the process of selecting a mix of asset classes and the efficient allocation of capital to those assets by matching rates of return to a specified and quantifiable tolerance for risk.

**Dollar-Cost Averaging** – Dollar-cost averaging is the technique of buying a fixed dollar amount of securities at regularly scheduled intervals, regardless of the price per share. This will gradually, over time, decrease the average share price of the security. Dollar-cost averaging lessens the risk of investing a large amount in a single investment at the wrong time.

**Technical Analysis** – involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.

**Long-Term Purchases** – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

**Short-Term Purchases** – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short term price fluctuations.

Our strategies and investments may have unique and significant tax implications. Regardless of your account size or other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

Investing in securities involves risk of loss that clients should be prepared to bear. Although we manage your portfolio with strategies and in a manner consistent with your risk tolerances, there can be no guarantee that our efforts will be successful. You should be prepared to bear the risk of loss.

All investments involve the risk of loss, including (among other things) loss of principal, a reduction in earnings (including interest, dividends, and other distributions), and the loss of



future earnings. These risks include market risk, interest rate risk, issuer risk, and general economic risk. Regardless of the methods of analysis or strategies suggested for your particular investment goals, you should carefully consider these risks, as they all bear risks.

#### **Item 9 – Disciplinary Information**

SMS has never been the subject of an investment related regulatory or legal complaint.

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

SMS is not engaged in any other financial industry activities other than giving investment advice. SMS does not sell products or services other than investment advice to its clients. SMS does not have any arrangements that are material to its advisory business or its clients with a related person who is a broker-dealer, investment company, other investment adviser, financial planning firm, futures commission merchant, commodity pool operator, commodity trading adviser, bank or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer or an entity that creates or packages limited partnerships.

#### **Item 11 – Code of Ethics**

SMS' Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect client interests at all times and to demonstrate our commitment to fiduciary duties of honesty, good faith, and fair dealing. All of SMS' Associated Persons are expected to strictly adhere to these guidelines. Persons associated with SMS are also required to report any violations to the Code of Ethics. Additionally, the firm maintains and enforces written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about our clients or client accounts by persons associated with our firm.

SMS and its employees may buy or sell securities that are also held by clients. It is the expressed policy of the advisor that no person employed by our firm purchase or sell any security prior to the transaction being implemented for an advisory account; therefore, preventing such employees from benefiting from transactions placed on behalf of the advisory clients.

SMS and/or one of its representatives may have an interest or position in a certain security, which may also be recommended to the client. As these situations may present a conflict of interest, SMS has established the following restrictions in order to ensure its fiduciary responsibilities:

1. A director, officer or employee of SMS shall not buy or sell a security for their personal portfolio(s) where their decision is substantially derived, in whole or part, by reason of his or her employment, unless the information is also available to the investing public. No owner/employee of SMS shall prefer their own interest to that of the client.

2. SMS maintains a list of all securities held by the company and all directors, officers, and employees. These holdings are reviewed on a quarterly basis by the principal of the firm.
3. SMS requires that all employees must act in accordance with all applicable Federal and State regulations governing registered investment advisors.
4. SMS may block personal trades with those of clients, however SMS will ensure that clients are never at a disadvantage.

SMS' Code of Ethics is available to you upon request. You may obtain a copy of our Code of Ethics by contacting Steven Sheldon at (713) 623-1534.

## **Item 12 – Brokerage Practices**

SMS recommends the services of Fidelity, member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. Fidelity maintains custody of all funds and securities. We believe that Fidelity provides quality execution services for you at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by Fidelity, including the value of research provided, the firm's reputation, execution capabilities, commission rates, reporting capabilities, and responsiveness to our clients and our firm. SMS may also occasionally receive travel and related expenses for industry conferences from the sponsoring organization. In recognition of the value of research services and additional brokerage products and services Fidelity provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

In order for SMS to provide you with investment management services, we will request that you establish an account with Fidelity, for which we have an existing relationship. Our relationship with Fidelity may include benefits provided to our firm, including research, market information, and administrative services that help our firm manage your account(s). We believe that recommended broker-dealers provide quality execution services for our clients at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by the recommended broker-dealers, including the value of research provided, the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm.

SMS does not have any soft dollar arrangements.

SMS does not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

When SMS buys or sells the same security for two or more clients (including our personal accounts), we may place concurrent orders to be executed together as a single "block" in order to facilitate orderly and efficient execution. Each client account will be charged or credited with

the average price per unit. We receive no additional compensation or remuneration of any kind because we aggregate client transactions, and no client is favored over any other client.

### **Item 13 – Review of Accounts**

All client portfolios are reviewed at least quarterly to monitor any portfolio shifts away from targeted asset allocations and any unintended portfolio exposure.

Clients' goals and investment objectives are set when the relationship is initiated and reviewed on an annual basis.

Factors triggering an account review include: notification of material changes in client's investment objectives and profile (financial condition, time horizon, tax circumstances, etc.), abnormal account value volatility, and adverse regulatory and geopolitical developments that might impact account values or investment strategy.

Transactions are reviewed for accuracy upon receipt of trade confirmation from the account custodian. Reviews are performed by the firm's principal.

Clients receive quarterly reports with a summary of investment positions, portfolio performance, and management fees paid.

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

We are not presently participating in any referral program.

### **Item 15 – Custody**

Any investment advisor having custody or access to customer funds or securities must comply with certain rules and regulations designed to protect the clients' assets. Rule 206(4)-2 of the Investment Advisers Act of 1940 details strict requirements governing investment advisors that have "custody" over client securities or funds. SMS meets the definition of having custody due to the following circumstances:

- SMS directly debits fees from client accounts

SMS does not have physical custody of any client funds and/or securities. Client funds and securities will be held with a bank, broker dealer, or other independent qualified custodian. You will receive account statements from the independent, qualified custodian holding your funds at least quarterly. The account statement from your custodian will indicate the amount of advisory fees deducted from your account(s) each billing cycle. Clients should carefully review statements received from the custodian. SMS also sends quarterly invoices detailing the manner and amount of advisory fees to all clients. Our statements may vary from custodial

statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### **Item 16 – Investment Discretion**

Before SMS can buy or sell securities on your behalf, you must first sign our discretionary management agreement, a limited power of attorney, and/or trading authorization forms. By choosing to do so, you may grant the firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. In all cases, however, such discretion is to be exercised in a manner consistent with the stated objectives for the particular client account. Clients may impose limitations on discretionary authority for investing in certain securities or types of securities (such as a product type, specific companies, specific sectors, etc.), as well as other limitations as expressed by the client. Limitations on discretionary authority are required to be provided to SMS in writing. Please refer to the “Advisory Business” section of this Brochure for more information on our discretionary management services.

#### **Item 17 – Voting Client Securities**

SMS does not vote proxies on behalf of your advisory accounts. At your request, SMS may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will select a choice on the custodian paperwork to receive proxy materials directly from the account custodian, or for the proxy materials to come to SMS. In the event we were to receive any written or electronic proxy materials, we do not vote, and are not responsible for voting proxies. This is also stated in our Investment Advisory Agreement.

#### **Item 18 – Financial Information**

SMS does not require or solicit the prepayment of \$500 or more, six months or more in advance. In addition, SMS does not have any financial condition that would impair our ability to serve our clients.

#### **Item 19 – Requirement for State-Registered Advisors**

This section is not applicable, as SMS is registered with the Securities and Exchange Commission.