

# Stonehearth Capital Management Wrap Fee Program

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## FORM ADV PART 2A Appendix 1 WRAP FEE PROGRAM BROCHURE

This wrap fee program brochure provides information about the qualifications and business practices of Stonehearth Capital Management. If you have any questions about the contents of this brochure, please contact us at (978) 624-3000 or [Jamie@stonehearthcapital.com](mailto:Jamie@stonehearthcapital.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 Stonehearth Capital Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Our Firm IARD/CRD number is 128866.

Any references to Stonehearth Capital Management as a registered investment adviser or its related persons as registered advisory representatives does not imply a certain level of skill or training.

## Item 2 - MATERIAL CHANGES

This section identifies specific material changes that were made to the Stonehearth Capital Management Wrap Fee Program Brochure since the last annual update and provides you with a summary of such changes.

Our last annual update occurred on March 30, 2015. The following material changes have been made to our Brochure since that filing:

- On May 1, 2015 SCM moved its office locations to 199 Rosewood Drive, Suite 200 in Danvers Massachusetts.

A copy of our updated Wrap Fee Program Brochure is available to you free of charge and may be requested by contacting us at (978) 624-3000 or [Jamie@stonehearthcapital.com](mailto:Jamie@stonehearthcapital.com).

Additional information about SCM is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The IARD number for SCM is 128866. The SEC's web site also provides information about any persons affiliated with SCM who are registered, or are required to be registered, as Advisory Representatives of SCM.

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#### **Item 4 – SERVICES, FEES AND COMPENSATION**

Stonehearth Capital Management ("SCM") is an investment advisory firm that sponsors a wrap fee program and provides portfolio management services under the wrap fee program. Clients electing to participate in a wrap fee program will receive portfolio management services and execution of securities transactions for a single fee.

SCM has entered into a relationship to offer you brokerage and custodial services through TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"). There is no affiliation between SCM and TD Ameritrade. Clients with an account at TD Ameritrade may participate in a wrap fee program.

Under a wrap fee program, you will not pay any ticket charges or account maintenance fees on accounts held in custody with TD Ameritrade. All such fees and expenses will be borne by SCM. Clients participating in our wrap fee program with assets managed by SCM but not custodied at TD Ameritrade (i.e., outside accounts) will be subject to such fees if assessed.

SCM and Advisory Representatives of SCM may receive a portion of the wrap fee for providing advisory services.

In order to qualify for our wrap fee program, you must:

- Have \$1,000,000 (cash or securities) or more of assets on which SCM or its Advisory Representatives receive any form of compensation, AND
- Maintain an account at TD Ameritrade

The \$1,000,000 of assets can be comprised of accounts held at TD Ameritrade along with other financial institutions ("outside accounts") such as mutual fund companies, 529 college savings plan providers, variable annuity companies, retirement plans providers and private and public partnerships. These assets must be managed by SCM and SCM must receive (or have received) some form of compensation to qualify towards the minimum threshold.

SCM will monitor your account values at least quarterly, and maybe more frequently, for continued eligibility in our wrap fee program. Should your account values fall below \$800,000, you will no longer be eligible to participate in the wrap fee program. Your account will be reassigned a new account number under our non-wrap fee asset management program. This means that SCM will no longer pay for ticket charges or account maintenance fees on your accounts held in custody with TD Ameritrade. Under certain circumstances, SCM may permit exceptions to the qualification requirements for the wrap fee program. Further information on the non-wrap fee asset management program is available in the Stonehearth Capital Management Brochure (Form ADV Part 2A).

SCM offers portfolio review and asset management services on a discretionary basis. Discretionary trading authorization permits the Advisory Representative to make buys, sells and exchanges within the account as the Advisory Representative deems appropriate without contacting you prior to execution. You will need to execute a limited power of attorney granting discretionary trading authorization to Stonehearth Capital Management and your Advisory Representative. SCM will manage

the account exercising discretionary authority on the securities to be purchased and sold and the timing of such transactions. With the exception of the authorized payment of SCM's advisory fees, SCM will not have the authorization to withdraw client securities or funds.

Advisory Representatives will gather information on your financial history, goals, objectives and financial concerns and assist you in developing an Investment Policy Statement which specifies your investment objectives, goals, and an asset allocation strategy. You will establish an account with TD Ameritrade and deposit cash, cash equivalents and securities and engage an Advisory Representative to manage the Account. Based on your investment objectives, risk tolerance and financial situation, your Advisory Representative will provide asset management services on a continuous and ongoing basis consistent with your Investment Policy Statement.

### **Payment Schedule**

The annual fee for the wrap fee program is based on a percentage of assets under management, according to the schedule below. Fees are negotiable under certain circumstances (e.g., friends, family members, and employees of SCM) and are subject to change. Fees are not based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds.

Advisory fees will be charged in advance of the billing period. The billing period will be on a calendar quarterly basis (i.e., March 31, June 30, September 30, and December 31). The quarterly advisory fee will be based on the value of the Account on the last business day of the just completed three-month period. Fees for partial periods will be prorated.

Advisory Fee = ((Account Value X Annual Fee) / 365) X Number of Days in the Quarter

The initial quarterly fee will be calculated at the end of the initial billing period. The fee will be prorated based on the number of days remaining in the three-month period. Thereafter, advisory fees will be charged in advance of the billing period. This means that you will initially receive two billings (one for the just completed quarter and one for the upcoming quarter). After that, you will receive one billing for each subsequent quarter.

Advisory fees for the wrap fee program are in accordance with the following fee schedule:

<b>Account Size</b>	<b>Annual Fee</b>
First \$250,000	1.25%
Next \$750,000	1.00%
Next \$2,000,000	0.75%
Next \$2,000,000	0.50%
Ongoing	0.25%

SCM may change the above fee schedule upon 30-days prior written notice to you.

Advisory fees are based on the aggregate value of all managed accounts within the established household. The value of the portfolio will include, but is not limited to, assets under the management of SCM held at TD Ameritrade as well as those assets under SCM's management held at other financial institutions (outside accounts) such as mutual fund companies, 529 college savings plan providers, variable annuity companies, retirement plans providers and private and public partnerships. Further information on non-wrap fee asset management services is available in the Stonehearth Capital Management Brochure (Form ADV Part 2A).

Depending upon the circumstances, we may combine client accounts from one household with client accounts from other households to aggregate account values for fee calculations. The annual fee may then be based on an aggregate value of all accounts within the combined households.

If you participate in a wrap fee program, advisory fees will be deducted directly from your account(s) with TD Ameritrade, provided you have given SCM written authorization. You will be provided with an account statement reflecting the deduction of the advisory fee. If the account does not contain sufficient funds to pay advisory fees, SCM has limited authority to sell or redeem securities in sufficient amounts to pay advisory fees. You may reimburse the account for advisory fees paid to SCM, except for ERISA and IRA accounts.

Transactions in your account, account reallocations and rebalancing may trigger a taxable event, with the exception of retirement accounts (e.g., IRA or Roth).

A portion of the wrap fee may be paid to the following parties:

- The client's Advisory Representative,
- SCM, and
- TD Ameritrade for brokerage and custodial services.

If the wrap fee account is opened with securities previously purchased through SCM's Advisory Representative, the Advisory Representative may have already received commissions on the purchase.

In addition to SCM's advisory fee, you should also be aware that the products we utilize within your portfolio will also charge fees (i.e., mutual fund expense ratios). Such fees are not shared with SCM and are compensation to the fund managers.

We will primarily recommend exchange traded funds (ETF) and open-ended mutual funds including no-load and load waived. While certain products may pay 12b-1 fees, SCM will not receive these fees. Where applicable and for those accounts under its custody, TD Ameritrade will retain the 12b-1 fees.

Depending on the level of the wrap program fee being charged to you and the amount of portfolio activity in your account, the cost of a wrap fee program may be more or less than if you obtained services separately or paid commissions or paid for execution services. A wrap fee account as compared with a traditional commission based account or a fee-based account where you pay transaction charges may be more costly to you, particularly during periods when trading activity is lower. Therefore, this may result in a higher annual cost than if transactional costs and investment

advice were segregated. During periods when trading activity is heavier, such as when the account is first opened, wrap fee accounts may result in lower costs.

Under the wrap fee program, Stonehearth Capital Management will pay transaction and execution charges in a client account held at TD Ameritrade. As such, there is a disincentive for Advisory Representatives to affect trades in these accounts held at TD Ameritrade.

Compensation received from a wrap fee program may be higher or lower than the compensation received should you have selected another advisory program or paid for brokerage and advisory services separately. Therefore, your Advisory Representative may have a financial incentive to recommend the wrap fee program over other programs or services. Such a practice presents a conflict of interest and gives SCM and the Advisory Representatives incentive to recommend investment products based on the compensation received rather than the client's needs.

### **Termination Schedule**

You may terminate investment advisory services obtained from SCM, without penalty, upon written notice within five (5) business days after entering into the advisory agreement with SCM. You will be responsible for any fees and charges incurred 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, you may terminate investment advisory services with written notice to SCM. Should you terminate investment advisory services during the quarter, you will be issued a pro-rated refund of the prepaid advisory fee from the date of termination to the end of the three-month billing period.

## **Item 5 – ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

SCM's services are geared toward individuals and their families including high net worth individuals, trusts, estates, as well as corporations and other business entities.

In order to qualify for our wrap fee program, you must:

- Have \$1,000,000 (cash or securities) or more of assets on which SCM or its Advisory Representatives receive any form of compensation, AND
- Maintain an account at TD Ameritrade.

SCM will monitor your account values at least quarterly, and maybe more frequently, for continued eligibility in our wrap fee program. Should your account values fall below \$800,000, you may no longer be eligible to participate in the wrap fee program. This means that SCM will no longer pay for ticket charges or account maintenance fees on your accounts held in custody with TD Ameritrade. Under certain circumstances, SCM may permit exceptions to the account minimum threshold.

## **Item 6 - PORTFOLIO MANAGER SELECTION AND EVALUATION**

SCM offers financial planning, retirement planning, and asset management services. SCM will provide asset management services on assets under custody with TD Ameritrade, or on assets held at other financial institutions (outside accounts). A description of all programs and services offered by SCM is more fully disclosed SCM's Disclosure Brochure.

The Stonehearth Capital Management wrap fee program is proprietary to SCM and does not offer access to other portfolio managers. The portfolio manager is the client's Advisory Representative.

Under the wrap fee program, you will not pay any ticket charges or account maintenance fees on accounts held in custody with TD Ameritrade. All such fees and expenses will be borne by SCM. SCM and Advisory Representatives of SCM may receive a portion of the wrap fee for providing advisory services.

SCM will provide asset management services on your assets held at other financial institutions (outside of TD Ameritrade) provided SCM is listed on the account with limited trading authorization to allow us to place trades on your behalf. While the value of these outside accounts may be combined with the value of your TD Ameritrade account(s) to qualify for our wrap fee program, any fees charged at these other financial institutions will be your responsibility.

Accounts held outside of TD Ameritrade (i.e., outside accounts) may not lend themselves to continuous and ongoing management of the assets within the account due to trading restrictions and limitations. In these instances, we will provide asset allocation and periodic monitoring services. Because of these restrictions, we try to utilize products/procedures that do not require rebalancing trades such as: age-based funds, target date funds, asset allocation funds or automatic rebalancing options offered by the outside account custodian.

SCM will manage a client's account based on the individual needs and goals of the client. Clients may impose restrictions on investing in certain securities or types of securities. The client's Advisory Representative will gather information on the client's financial history, goals, objectives, and financial concerns and assist client in developing an asset allocation strategy. All information gathered from client is confidential.

SCM does not charge performance-based fees.

### **Investment Strategy**

We employ four major investment strategies when managing client portfolios:

1. Diversification
2. Portfolio Rebalancing
3. Product Selection
4. Active Risk Management



## **Diversification**

There are two primary ways that we diversify client portfolios:

First, we diversify client portfolios among these four major asset categories:

- Bonds
- Domestic Stocks
- International Stocks
- Alternative Investments

We vary the exposure to these major asset categories depending upon the desired risk level.

Second, we diversify client portfolios among different types of strategies, for example trend following:

Our trend following strategy involves buying certain positions that are experiencing the strongest upward momentum (getting the most attention from investors) and selling them when another position takes the top spot, which we will then rotate into. We will examine the following major asset categories:

- Cash
- Bonds
- Domestic Stocks
- International Stocks
- Emerging Markets
- Real Estate
- Commodities/Natural Resources

We will select the top 3 that are experiencing a strong upward trend. We will only consider those major asset categories that are ranked above cash. If cash is ranked #1, we will allocate the entire trend following strategy to cash. If cash is ranked #2, we will allocate two-thirds of the trend following strategy to cash. If cash is ranked #3, we will allocate one-third of the trend following strategy cash.

Every 30-45 days we will identify if and/or when we need to rotate into a new product. The goal of this strategy is to take advantage of investor emotions, in particular, greed.

## **Portfolio Rebalancing**

We regularly monitor client portfolios to ensure that each asset category's allocation remains within an acceptable range from our desired target allocation. Typically this acceptable range is 25% from our target, however this may vary. Typically we monitor client portfolios for rebalancing trades every quarter, however this may vary.

### **Product Selection**

Our goal is to utilize the most efficient and cost effective product to gain exposure to a desired asset category for our client portfolios. Typically this results in us utilizing ETFs and open-ended mutual funds (including no-load and load waived) for our client portfolios.

### **Active Risk Management**

We utilize multiple sources of information to help us determine when to proactively reduce risk within client portfolios. Some of these resources include: Ned Davis Research, The Sherman Sheet & Stockcharts.com to name a few.

When the preponderance of the evidence shows that market risks are rising, we may proactively reduce risk within client portfolios. When the preponderance of the evidence shows that market risks are low, we will utilize the normal desired risk level for each client.

There is an element of market timing involved within this strategy, and there is no guarantee that we will meet our objective. Whipsaws and false alarms are a common hurdle for market timing strategies and can detract from portfolio performance overtime, however, we still believe the pros outweigh the cons.

We will primarily use exchange traded funds (ETFs) and open-ended mutual funds (including no-load and load waived). Less frequently, we may recommend closed-end funds, stocks, limited partnerships, non-publicly traded real estate investment trusts (REITs), and variable annuities.

### **Method of Analysis and Investment Process**

We use a disciplined process for analyzing investment options and constructing client portfolios. As mentioned under Item 4, Advisory Business, we use three risk profiles ranging from conservative to aggressive. After determining the client's appropriate risk level, we will assign the client to one of three asset allocation model portfolios. Our lower risk level asset allocation models contain a larger percentage of assets that do not correlate with the stock market. Our higher risk level asset allocation models contain a larger percentage of assets that DO correlate with the stock market. In constructing the portfolios, we use Morningstar software to identify if the risk and growth factors are appropriate for each risk level.

In determining the composition of investments within each model portfolio, we use a proprietary investment analysis strategy. We take into account the following:

- ✓ Experience of the manager and management team
- ✓ Competitiveness of the expenses charged for managing the fund
- ✓ Performance of the fund during prior market selloffs and rallies
- ✓ Compensation for the risk taken within the fund (i.e., high risk, high reward)
- ✓ Volatility of the fund
- ✓ Consistency of returns by the fund
- ✓ Value added by manager vs. buying cheap index fund.

We weight each of the factors within Morningstar software to identify products that we feel are appropriate to utilize within client portfolios. We monitor these products to ensure they are still appropriate to utilize, or to identify if another product would be a better fit.

SCM adheres to a disciplined monitoring process:

- Quarterly we process a global rebalancing trade. This global trade looks at each household to ensure their asset categories are within the desired drift range.
- Every 30-45 days we monitor our trend following ranking to determine if we need to swap one of our products.
- Monthly cash management screening to ensure clients who have periodic draws from their accounts to supplement income needs run smoothly
- Quarterly monitoring of fund performance to ensure fund managers are still competitive based on our proprietary screening process
- Annual analysis of tax management strategies to help limit tax liabilities for clients.

SCM does not represent, warrant or imply that the services or methods of analysis used by SCM can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to major market corrections or crashes. Past performance is no indication of future performance. No guarantees can be offered that your goals or objectives will be achieved. Further, no promises or assumptions can be made that the advisory services offered by SCM will provide a better return than other investment strategies.

As stated above, SCM primarily uses ETFs and mutual funds. The risks with these products include the costs and expenses for the product that can impact performance, change of managers, and fund straying from its objective. Open ended mutual funds do not typically have a liquidity issue and the price does not fluctuate throughout the trading day. ETFs can also trade at a premium or discount to their net asset value which can detract from performance.

Investing in securities involves risk of loss, including the potential loss of principal. Therefore, your participation in any of the management programs offered by SCM will require you to prepare to bear the risk of loss and fluctuating performance.

### **Voting Client Securities**

SCM does not vote your securities. Unless you suppress proxies, the account custodian or transfer agent will send securities proxies directly to you. You may contact your Advisory Representative about questions you may have and opinions on how to vote the proxies. However, the decision to vote and how you vote the proxies is solely up to you.

<b>Item 7 - CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS</b>
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We will gather financial information from you such as:

- Social Security or Tax Identification number
- Birth date
- Net worth and annual income

- Information about your personal finances
- Financial information such as bank accounts
- Other investment accounts, balances, statements, account numbers, etc.
- Investment goals and objectives and risk tolerance.

As the portfolio manager, your Advisory Representative will use this information to customize an advisory program based on your specific needs. Should this information change, you should notify your Advisory Representative.

#### **Item 8 - CLIENT CONTACT WITH PORTFOLIO MANAGERS**

You may contact SCM and your Advisory Representative at any time. The frequency of client meetings are based on the value of the assets under management by SCM (see Review of Accounts in Item 9 – Additional Information for further details).

#### **Item 9 – ADDITIONAL INFORMATION**

There is no reportable disciplinary information required for SCM or its Advisory Representatives.

Advisory Representatives are licensed with various insurance companies. The insurance business is not a significant business to the Advisory Representatives and they do not concentrate resources toward the business. However, it is important to know that if Advisory Representatives recommend insurance products and if you purchase insurance products through them, they will earn commissions. This represents a conflict of interest in that the Advisory Representative recommends the insurance product and compensation is received by the Advisory Representative.

While Advisory Representatives endeavor at all times to put the interests of the clients first as part of SCM's fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest and may affect the judgment of Advisory Representatives when making recommendations.

SCM attempts to mitigate the conflict of interest with the potential receipt of commission by disclosing this conflict to you and by informing you that you are under no obligation to purchase insurance products or services through our Advisory Representatives. You may implement recommendations through other insurance agents.

#### **Code of Ethics**

SCM has a fiduciary duty to you to act in your best interest and always place your interests first and foremost. SCM takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations as well as SCM's policies and procedures. Further, SCM strives to handle your non-public information in such a way to protect information from falling into hands that have no business reason to know such information and provides you with SCM's Privacy

Policy. As such, SCM maintains a code of ethics for its Advisory Representatives, supervised persons and staff. The Code of Ethics contains provisions for standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violations reporting requirements, and safeguarding of material non-public information about your transactions. Further, SCM's Code of Ethics establishes SCM's expectation for business conduct. A copy of our Code of Ethics will be provided to you upon request.

Richard Prout, Managing Member and owner of SCM, is a director on the board of Biometrics, LP, a venture capital company. In order to raise funds, Richard may solicit suitable clients of SCM. Rich receives compensation for his role as a director. This represents a conflict of interest. You are under no obligation to participate in the fundraising activities.

SCM and its associated persons may buy or sell securities identical to those securities recommended to you. Therefore, SCM and/or its associated persons may have an interest or position in certain securities that are also recommended and bought or sold to you. SCM and its associated persons will not put their interests before your interest. SCM and its associated persons may not trade ahead of you or trade in such a way to obtain a better price for themselves than for you or other clients.

SCM is required to maintain a list of all securities holdings for its associated persons and develop procedures to supervise the trading activities of associated persons who have knowledge of your transactions and their related family accounts at least quarterly. Further, associated persons are prohibited from trading on non-public information or sharing such information.

You have the right to decline any investment recommendation. SCM and its associated persons are required to conduct their securities and investment advisory business in accordance with all applicable Federal and State securities regulations.

The wrap fee program may present conflicts of interest. Some products are offered on TD Ameritrade's platform with no or lower ticket charges, while others require higher ticket charges. Since SCM covers ticket charges for qualifying clients, we may be influenced by this fee when selecting products.

## **Review of Accounts**

SCM conducts reviews with clients at least annually or as agreed by client and Advisory Representative. The frequency of client meetings are based on the value of the assets under management by SCM. Advisory Representatives will offer review appointments based on the following schedule:

<b>Account Size</b>	<b>Annual Client Meetings</b>
\$0 - \$1,000,000	1 Portfolio Review
\$1,000,001 - \$5,000,000	2 Portfolio Reviews
\$5,000,001 +	4 Portfolio Reviews

You may request more or less frequent meetings based on your specific needs.

You must notify SCM promptly of any changes to your financial goals, objectives or financial situation. Your Advisory Representative will review the portfolio allocation and determine recommendations for changes.

SCM will provide you with a written or electronic quarterly report which includes performance, current holdings, current asset allocation and an invoice for SCM's management fee. The invoice will specify the advisory fee, the value of the account and the period rate upon which the fee was calculated.

You will also receive monthly or quarterly statements directly from the account custodian. Additionally, the custodian will provide you with trade confirmations of all transactions occurring in your account.

### **Client Referrals and Other Compensation**

Product vendors recommended by SCM may provide monetary and non-monetary assistance with client events and provide educational tools and resources. SCM does not select products as a result of any monetary or non-monetary assistance. The selection of product is first and foremost. SCM's due diligence of a product does not take into consideration any assistance it may receive. Therefore, this is not considered a conflict of interest but a benefit for you and SCM.

As mentioned in Item 4, SCM has entered into a relationship to offer you brokerage and custodial services through TD Ameritrade. We receive an economic benefit from TD Ameritrade in the form of the support products and services made available to us and other independent investment advisers whose clients maintain their accounts at TD Ameritrade. These products and services, how they benefit us, and the related conflicts of interest are described below. The availability to us of TD Ameritrade's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

In order to obtain the wrap fee asset management services from SCM, you will need to maintain an account with TD Ameritrade. If you select another brokerage firm for custodial and/or brokerage services, you will not be able to receive the wrap fee asset management services from SCM. This practice may prevent us from achieving the most favorable execution of client transactions, and may cost you more money.

### **TD Ameritrade**

SCM participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade "), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisers services which include custody of securities, trade execution, clearance and settlement of transactions. SCM receives some benefits from TD Ameritrade through its participation in the Program.

As disclosed above, SCM participates in TD Ameritrade's institutional customer program and SCM may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between SCM's participation in the program and the investment advice it gives to its Clients, although SCM receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving SCM participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to SCM by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by SCM's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit SCM but may not benefit its Client accounts. These products or services may assist SCM in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help SCM manage and further develop its business enterprise. The benefits received by SCM or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, SCM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by SCM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the SCM's choice of TD Ameritrade for custody and brokerage services.

SCM also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include Ned Davis and Morningstar.

TD Ameritrade provides the Additional Services to SCM in its sole discretion and at its own expense, and SCM does not pay any fees to TD Ameritrade for the Additional Services. SCM and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

SCM has an arrangement with TD Ameritrade where TD Ameritrade has agreed to allocate a certain amount of money to SCM to pay for software and programs that enable SCM to provide its management services to clients. The software and computer programs enable us to conduct research, monitor accounts, and report to clients. TD Ameritrade has not established any thresholds or account requirements that we must meet in order to receive the benefit from TD Ameritrade. However, this is still considered a conflict of interest since we do not have to pay for the research, products or services and SCM's relationship with TD Ameritrade directly benefits SCM. This may cause a client to pay commissions higher than those charged by other broker-dealers. The products

and services we receive are used to service all of our clients and not only those clients who maintain accounts at TD Ameritrade.

SCM's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to SCM, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, SCM's client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with SCM, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, SCM may have an incentive to recommend to its clients that the assets under management by SCM be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. SCM's receipt of Additional Services does not diminish its duty to act in the best interests of its clients, including to seek best execution of trades for Client accounts.

We may enter into arrangements with individuals called solicitors. The solicitor will refer clients who may be a candidate for our investment advisory services. In return, we will agree to compensate the solicitor for the referral. Compensation to the solicitor is dependent upon the client entering into an advisory agreement with SCM for advisory services. The solicitor will be compensated by a percentage of our advisory fee or a flat fee as agreed upon between SCM and the solicitor. Our referral program is in compliance with the federal regulations as set out in 17 CFR section 275.206(4)-3. The solicitation/referral fee is paid pursuant to a written agreement entered into between SCM and the solicitor. The solicitor will be required to provide the client with a copy of our disclosure brochure, Form ADV Part 2, and a Solicitor Disclosure brochure at the time of referring a client to SCM. The solicitor is not permitted to offer the client any investment advice on our behalf. Clients' advisory fees will not be increased as a result of compensation being shared with Solicitor.

We may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, we may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with us and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise us and has no responsibility for our management of client portfolios or our other advice or services. We pay TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to us ("Solicitation Fee"). We will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by us from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired us on the recommendation of such referred client. We will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.



Our participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, we may have an incentive to recommend to clients that the assets under management by us be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, we have agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. Our participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

### **Financial Information**

SCM will not require you to prepay more than \$1,200 and six or more months in advance of receiving the advisory service.

SCM is financially stable. There is no financial condition that is likely to impair our ability to meet our contract actual commitment to you or any other client.

SCM has not been the subject of a bankruptcy petition.

<b>Item 10 - REQUIREMENTS FOR STATE REGISTERED ADVISERS</b>
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This section is not applicable to SCM. SCM is not state registered. SCM is registered with the Securities and Exchange Commission.