

## **Stonehearth Capital Management**

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**February 15, 2017**

**FORM ADV PART 2A  
BROCHURE**

**This 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 Brochure since the last annual update and provides you with a summary of such changes.

Our last annual updating amendment occurred on March 29, 2016. The following material changes have been made to our Brochure since that filing:

- On January 16, 2017 Jamie Upson became sole owner and Managing Member of Stonehearth Capital Management, replacing Richard Prout

A copy of our updated 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). Our Brochure may also be obtained from our web site at [www.stonehearthcapital.com](http://www.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 Advisory Business**

Stonehearth Capital Management ("SCM") is an investment advisory firm offering financial planning, retirement planning, and asset management services customized to the needs of individuals, businesses, and organizations.

In 1995 Prout Financial Services, a Massachusetts-registered investment advisory firm was established. This firm evolved into Wealth Management Group, LLC in 2004 and in 2014, became Stonehearth Capital Management. Due to its growth, SCM registered as an Investment Adviser with the Securities and Exchange Commission in May 2007. Jamie A. Upson is the Managing Member and sole owner of SCM. Mr. Upson has been in the financial services industry since 1999.

We tailor our advisory services to your individual needs. You may ask us to restrict and/or limit certain securities or types of securities when we invest for you. To begin the process, we will ask you to complete our data-gathering form to assist us with obtaining information about your financial situation and history. Additionally, we will meet with you and conduct an interview and data gathering session to continue the due diligence process. We will discuss your desired level of risk, your knowledge of investing, and how we can best meet your needs. The information we collect will help us to provide a program customized to your financial situation.

Depending on the services you have requested, we will gather various financial information and history from you such as:

- Retirement and financial goals
- Investment objectives
- Investment horizon
- Financial needs
- Cash flow analysis
- Cost of living needs
- Education needs
- Savings tendencies
- Other applicable financial information required by SCM in order to provide the investment advisory services requested.

We may use the financial planning software, or eMoney, to analyze your financial strength.

### ***Asset Management Services***

We offer asset management services under the following programs:

- Wrap Fee Program
- Non-Wrap Fee Program

Clients participating in a wrap fee program pay an all-inclusive fee which encompasses trade execution and portfolio management. In the non-wrap fee program, trade execution costs are in addition to the advisory fee. The amount of assets under management by SCM determines your program eligibility (refer to Item 5 for further details).

SCM will gather financial information from you. Once we complete our analysis of your situation, we will work with you to determine which strategy would be most suitable for you and what level of risk is most comfortable for you.

SCM offers two different portfolio strategies:

- Core Diversified Portfolio
- US Stock Portfolio

We will customize your portfolio allocation for both strategies taking into consideration your limitations or restrictions, the market and economy at the time, and your financial situation, goals and objectives.

We will present the Investment Policy Statement to outline how your account will be managed. It will include the recommended portfolio allocation. Upon your approval, we will implement the portfolio allocation.

SCM will provide continuous and ongoing management of your account on a discretionary basis. We will manage your account and make changes to the allocation as deemed appropriate by SCM. We will determine the securities to be purchased and sold in the account and will alter the securities holdings from time to time, without prior consultation with you. SCM may actively trade securities and hold such holdings for periods of 30 days or less or maintain positions for longer or shorter term periods.

Within our Core Diversified Portfolios 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. Within our US Stock Portfolio we will use primarily stocks, however we may include ETFs at times.

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

As previously stated, SCM will start the portfolio construction process by determining the strategy and risk profile that best meets your suitability parameters. Your managed account may be similarly managed and contain similar holdings as compared to other clients' managed accounts.

As further described below, SCM has entered into a relationship to offer you brokerage and custodial services through 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. There is no affiliation between SCM and TD Ameritrade.

Additionally, you may establish an account with other financial institutions (referred to as "outside accounts") such as mutual fund companies, 529 college savings plan providers, variable annuity companies, retirement plans providers and private and public partnerships. SCM will provide asset management services on your assets held at other financial institutions provided SCM is listed on the account with limited trading authorization to allow us to place trades on your behalf. These accounts held at other financial institutions do not qualify for our wrap fee program as described below. 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.

For those Clients with less than \$100,000 in investable assets SCM typically invests these funds differently. In these situations, SCM will invest the client in an asset allocation fund to keep trading fees low. When the Client's investable assets exceed \$100,000 SCM will suggest we move to our more traditional asset management process. Only if/when the Client's investable assets fall below \$80,000 will SCM recommend going back to the asset allocation product. This distinction is in the spirit of reducing trading fees for smaller accounts.

### ***Wrap Fee Program***

As mentioned previously, SCM offers a wrap fee program. A wrap fee program is a fee-based account for which you will pay a single fee for portfolio review, asset management services, and brokerage services.

#### **Core Diversified Portfolio Wrap Fee Program Qualifications:**

- 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.

#### **US Stock Portfolio Wrap Fee Program Qualifications:**

- Have \$1,000,000 (cash or securities) or more of assets dedicated to this strategy, AND
- Maintain an account at TD Ameritrade.

The US Stock Portfolio strategy is expected to have higher turnover, resulting in more trades (compared to the Core Diversified Portfolio). As such, qualification for the Wrap Fee Program for accounts utilizing this strategy must have \$1,000,000 (cash or securities) or more of assets dedicated to this strategy. Other strategies, or outside accounts, will not count towards this threshold.

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 will receive a portion of the wrap fee for providing advisory services.

At the discretion of SCM, ticket charges and account maintenance fees on accounts held with TD Ameritrade may be paid for by SCM for certain clients participating in the non-wrap fee program. Further details of our wrap fee program can be found in Item 5 - Fees & Compensation.

## ***Financial Planning and Retirement Planning Services***

Planning services may include advice on tax planning, estate planning, business planning, retirement planning, education planning, budgeting and cash flow, and/or fringe benefit analysis. SCM will schedule a meeting with you and present the analysis of your situation and provide recommendations to assist you towards your financial goals.

Plans are based on your financial situation at that time and are based on the financial information provided by you to SCM. Certain assumptions may be made with respect to interest and inflation rates and use of past trends and performance of the market and economy. However, past performance is in no way an indication of future performance. SCM cannot offer any guarantees or promises that your financial goals and objectives will be met. Further, you must continue to review the plan and update the plan based upon changes in your financial situation, goals, or objectives or changes in the economy. Should your financial situation or investment goals or objectives change, you must notify SCM promptly of the changes. The advice offered by SCM may be limited and is not meant to be comprehensive. Therefore, you may need to seek the services of other professionals such as an insurance agent, attorney and/or accountant.

You are not obligated to implement advice through SCM or its Advisory Representatives.

## ***General Information***

The investment recommendations and advice offered by SCM are not legal advice or accounting advice. You should coordinate and discuss the impact of financial advice with your attorney and/or accountant. If your financial situation, investment goals, and/or objectives should change, please inform SCM promptly. The change may trigger a need for adjustments in your plan or portfolio. Failure to notify SCM of any such changes could result in investment recommendations not meeting your needs.

## ***Assets Under Management***

The amount of discretionary assets under management by SCM totaled approximately \$206,387,710 as of December 31, 2016. SCM does not manage assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

### ***Asset Management Services***

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.

$$\text{Advisory Fee} = ((\text{Account Value} \times \text{Annual Fee}) / 365) \times \text{Number of Days in the Quarter}$$

The initial quarterly fee will be calculated at the end of the initial billing period. The fee will be pro-rated 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.

You may make additions to the account or withdrawals from the account, provided the account continues to meet minimum account size requirements. No fee adjustments will be made for additions or withdrawals from the account or for account appreciation or depreciation.

Advisory fees for the wrap fee and non-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). It is SCM's policy to charge half of the advisory fee on 529 plan account(s).

If our Advisory Representative recommends the purchase of non-publicly traded REITs, Limited Partnerships or other private investment offerings, the position(s) will be included in the calculation of the advisory fee. Since these investments are managed by a non-affiliated investment manager, you will pay an advisory fee to the non-affiliated investment manager in addition to the advisory fee charged by SCM. Certain clients may hold non-publicly traded REITs or Limited Partnerships in their portfolios, for which Advisory Representative received a commission. In these situations, the position(s) will be excluded from the advisory fee calculation until the asset either liquidates, merges or goes public. At that time, the position(s) will be included in the fee calculation. Also, some stock positions that are held at the client's request will be excluded or discounted for fee calculation purposes unless we are offering recommendations on the stock, in which case we will include the fair market value in the calculation of our management fee.



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.

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.

For outside accounts held at other financial institutions that are under SCM's management, the advisory fee will be deducted from a single designated account at TD Ameritrade chosen by SCM. If you do not have a TD Ameritrade account, SCM will invoice you quarterly in advance.

A wrap fee program offers advisory services and brokerage services for a single fee. The fee may be higher or lower if you were to obtain these services separately. If you are eligible for participation in our wrap fee program, you will not pay separate ticket charges and execution fees or account maintenance fees on those assets held at TD Ameritrade. You should read the wrap fee program disclosure brochure (Part 2A Appendix 1) for additional disclosures.

Clients participating in our wrap fee or non-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.

**Ticket Charges:** TD Ameritrade charges ticket charges for each trade placed on their platform. These charges, which typically range from \$0.00 to \$10.00, are paid by you unless you qualify for our wrap fee program.

#### Core Diversified Portfolio Wrap Fee Program Qualifications:

- 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.

#### US Stock Portfolio Wrap Fee Program Qualifications:

- Have \$1,000,000 (cash or securities) or more of assets dedicated to this strategy, AND
- Maintain an account at TD Ameritrade.

The US Stock Portfolio strategy is expected to have higher turnover, resulting in more trades (compared to the Core Diversified Portfolio). As such, qualification for the Wrap Fee Program for accounts utilizing this strategy must have \$1,000,000 (cash or securities) or more of assets dedicated to this strategy. Other strategies, or outside accounts, will not count towards this 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 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.

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.

For additional information, please refer to Item 12 that describes the factors that SCM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

You may deposit assets into your fee based account on which a commission was previously paid to an individual not associated with SCM. We will include such positions in the calculation of our advisory fee.

As stated above, we utilize exchange traded funds (ETFs) 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.

You may purchase the securities recommended by SCM directly or through other brokers or agents not affiliated with SCM.

#### Termination Provisions

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.

#### ***Financial and Retirement Planning Services***

Fees for planning services are strictly for planning services. Therefore, you may pay fees and/or commissions for additional services obtained such as asset management or products purchased such as insurance.

Fees are negotiable. Your fees will be dependent on several factors including time spent with SCM, number of meetings, complexity of your situation, amount of research, services requested and staff resources.

Fee Type	Maximum Fee	Payable
	• \$2,995 Fee is	

Fixed Fee	waived/reimbursed if Client deposits investable assets greater than \$500,000 within 3 months of signing agreement	Fee due at the time of presentation of the plan or as invoiced, unless otherwise negotiated with you.
Hourly Fee	\$395 per hour	Payable as invoiced by SCM as services are rendered.

#### Termination Provisions

The advisory agreement is in effect through the delivery of final documentation to you; otherwise, it will remain in effect for a period of one year. You may terminate advisory services obtained from SCM, without penalty, upon written notice within five (5) business days after entering into the advisory agreement with SCM. Thereafter, you may terminate investment advisory services with 30-days written notice to SCM. You will be responsible for any time spent by SCM.

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

SCM does not charge performance-based fees.

### **Item 7 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.

SCM generally requires a minimum amount of assets be deposited to an account for the purpose of obtaining asset management services. SCM will generally require you to deposit a minimum of \$500,000 (cash or securities). However, under certain circumstances, SCM may waive the minimum account size requirement and accept accounts less than \$500,000. Such circumstances may include but not be limited to additional assets will soon be deposited, family members of existing clients, or you have other accounts under management with SCM. You are advised performance may suffer due to difficulties with diversifying smaller accounts and due to risk controls potentially being compromised. Performance of smaller accounts may vary from the performance of accounts with more dollars invested since fluctuations in the market may have a greater effect on a less diversified portfolio.

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

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

After determining the client's appropriate risk level, we will assign the client to one of our 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 & Rixtrema 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 the following monitoring process:

- At least 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 (25% of target exposure, for example 10% target, plus or minus 2.5% drift).
- 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 (aka Tax Loss Harvesting).

SCM does not represent, warranty 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.

#### **Core Diversified Portfolio:**

When constructing client portfolios using our Core Diversified Portfolio Strategy, we offer three different risk models: Conservative, Moderate & Aggressive.

Conservative: The primary objective is to minimize losses and to keep volatility to a minimum. The secondary objective is growth of assets.

Moderate: The primary objective is to equally balance minimizing losses and growing the assets.

Aggressive: The primary objective is growth of assets. The secondary objective is to minimize losses and to keep volatility to a minimum.

There is no guarantee that SCM's expectations will be met within each of the 3 risk models.

#### **US Stock Portfolio:**

We rank stocks on known quantitative factors that we believe help identify stocks that are good investments over a full market cycle. They are based on academic and real world research. We rank stocks on quality, value, price momentum, & dividend yield. We then combine the 4 scores into one "alpha" score to screen our universe for stocks to invest in. We then apply a qualitative analysis to further help us identify stocks that are an attractive investment. Our focus is on high quality companies that return cash to shareholders, that are inexpensive, and are exhibiting positive price momentum based on quantitative factors. This strategy seeks to add value over the S&P 500, a broad market cap based index.

### **Item 9 Disciplinary Information**

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

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

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.

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.

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

#### **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.

SCM and its associated persons may buy or sell securities identical to those securities recommended to you. This includes private investment offerings. 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.

## **Item 12 Brokerage Practices**

As previously stated, 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"). SCM is independently owned and operated and not affiliated with TD Ameritrade.

In order to obtain asset management services from SCM (wrap fee and non-wrap fee services), you will need to maintain an account with TD Ameritrade. If you select another brokerage firm for custodial and/or brokerage services, you may not be able to receive 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.

Not all investment advisers require you to maintain accounts at a specific broker-dealer. Although you would not be eligible for our wrap fee program, you may maintain accounts at another broker-dealer. We will provide asset management services on these accounts provided SCM is listed on the account with limited trading authorization to allow us to place trades on your behalf.

When first selecting TD Ameritrade, SCM conducted due diligence. We examined their ability to service you, staying power as a company, industry reputation, reporting ability, trading platform, products and services available, technology resources, and educational resources.

Periodically, we will review alternative broker-dealers and custodians in the marketplace to ensure TD Ameritrade and their custodians are meeting SCM's duty to provide best execution for your accounts. Best execution does not simply mean the lowest transaction cost. When examining firms, we will compare overall expertise, cost competitiveness and financial condition. The quality of execution by TD Ameritrade will be reviewed through trade journal evaluations. No single criteria will validate nor invalidate a custodian, but rather, all criteria taken together will be used in evaluating the currently utilized custodian.

Additionally, product sponsors such as variable and investment companies and limited partnerships which are recommended to you may provide support to SCM and our Advisory Representatives. Such support includes research, educational information, and monetary support for due diligence trips and client events.

There is an incentive for SCM and your Advisory Representative to recommend one broker-dealer over another based on the products and services that we will receive rather than your best interest.

### **The Custodian and Brokers We Use**

SCM does not maintain custody of your assets that we manage, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see *Item 15 - Custody*, below). Your assets must be maintained in an account at a "qualified custodian," generally a broker dealer or bank. We recommend that our clients use TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade") as the qualified custodian. We are independently owned and operated and are not affiliated with TD Ameritrade. TD Ameritrade will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use TD Ameritrade as custodian/broker, you will decide whether to do so and will open your account with TD Ameritrade by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. If you do not wish to place your assets with TD Ameritrade, then you will not be able to receive the wrap fee asset management services from SCM.

Not all advisers require their clients to use a particular broker-dealer or other custodian selected by the Adviser. Even though your account is maintained at TD Ameritrade, we can still use other brokers to execute trades for your account.

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

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

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below.

### **TD Ameritrade**

SCM participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC/NFA. TD Ameritrade is an independent [and unaffiliated] SEC-registered broker-dealer. 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 may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice we give to its clients, although we receive economic benefits through our 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): duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor 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 us by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by our related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for our personnel to attend conferences or meetings relating to the program or to TD Ameritrade's advisor custody and brokerage services generally. Some of the products and services made available by TD Ameritrade through the program may benefit us but may not benefit our client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our 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. You should be aware, however, that the receipt of economic benefits by SCM or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our recommendation of TD Ameritrade for custody and brokerage services.

We also receive from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment advisers participating in the program. Specifically, the Additional Services includes Ned Davis Research. Eligible products include CRM, research, and financial planning software. TD Ameritrade provides the Additional Services to Adviser 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.

Our receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to us, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, our client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with us, in its sole discretion, provided certain conditions are not met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, we may have an incentive to recommend to clients that assets under management by



SCM be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. Our receipt of Additional Services does not diminish our duty to act in the best interests of our clients, including the duty to seek best execution of trades for client accounts.

We also may receive client referrals from TD Ameritrade through our 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 advisers. 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 advisers 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 us through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when our fiduciary duties require doing so. Our participation in AdvisorDirect does not diminish our duty to seek best execution of trades for client accounts.

As stated previously, certain products that we recommend may pay 12b-1 fees. Where applicable and for those accounts under its custody, TD Ameritrade will retain the 12b-1 fees. SCM will not receive these fees.

In an effort to strive for best execution and to possibly reduce the price per share and/or other costs to clients, SCM may use block trades when placing trades for multiple clients that involve the same security. We conduct aggregated transactions in a manner designed to ensure that no participating client is favored over another client. Participating clients will obtain the average share price per share for the security executed that day. To the extent the aggregated order is not filled in its entirety and when possible, securities purchased or sold in an aggregated transaction will be allocated pro-rata to the participating client accounts in proportion to the size of the orders placed for each account. Under certain circumstances, the amount of securities maybe increased or decreased to avoid holding odd-lot or a small number of shares for particular clients.

When dealing with a thinly traded security for multiple clients, we will allocate partially filled orders on a prorated basis among client accounts.

## Item 13 Review of Accounts

### ***Asset Management Services***

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.

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:

Account Size	Annual Client Meetings
\$0 - \$1,000,000	1 Portfolio Review
\$1,000,000 - \$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.

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.

### ***Financial Planning and Retirement Planning Services***

Clients participating in Financial and Retirement Planning Services will not receive regular reviews or reports other than the initial plan or analysis. SCM recommends that you have your plan reviewed and updated at least annually, or sooner if changes dictate. However, you will decide on the time and frequency of any further review. To obtain additional services, you will be required to re-contract with us based on the fee schedule disclosed under the program.

## Item 14 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.

We receive an economic benefit from TD Ameritrade in the form of the support products and services it makes available to us and other independent investment advisers whose clients maintain their accounts at TD Ameritrade. We also may receive client referrals from TD Ameritrade through our participation in TD Ameritrade AdvisorDirect. These products and services, how they benefit us, and the related conflicts of interest are described above (see *Item 12 - Brokerage Practices*). 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.

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.

## **Item 15 Custody**

With the exception of deduction of SCM's advisory fees from your accounts, SCM does not have custody of your funds or securities.

Under government regulations, we are deemed to have custody of your assets if you authorize us to instruct TD Ameritrade to deduct our advisory fees directly from your account. However, your custodian, TD Ameritrade, maintains the actual custody of your assets. You will receive account statements directly from TD Ameritrade at least quarterly. They will be sent to the email or postal mailing address you provided to them. You should carefully review those statements promptly when you receive them. We also urge you to compare the account statements from TD Ameritrade with the quarterly portfolio reports you will receive from us.

## **Item 16 Investment Discretion**

By execution of our advisory agreement, you will grant SCM authorization to manage your account on a discretionary basis. We will have the authority to determine, without obtaining specific client consent, the securities to be bought or sold and the amount of the securities to be bought or sold. You may terminate discretionary authorization at any time upon receipt of written notice by SCM.

Discretionary trading authority facilitates placing trades in client accounts so that we may promptly implement the investment policy that clients have approved in writing. A limited power of attorney is a trading authorization for this purpose. Clients sign a limited power of attorney so that we may execute trades, subject to the limitations of the agreement.

In all cases, such discretion is exercised in a manner consistent with your Investment Policy Statement which specifies your investment objectives, goals, and asset allocation for the account. Investment guidelines and restrictions must be provided to SCM in writing.

## **Item 17 Voting Client Securities**

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

## **Item 18 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.

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

This section is not applicable to SCM. SCM is not state registered. SCM is registered with the Securities and Exchange Commission.