

## Item I Cover Page

This brochure provides information about the qualifications and business practices of Provident Capital Management, Inc. If you have any questions about the contents of this brochure please contact us at 317-705-1999. 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 Provident Capital Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Provident Capital Management, Inc. (PCM) is a fee only Registered Investment Advisor under the Investment Advisers Act of 1940. (Registration does not imply a certain level of skill or training). Its office is located at 11595 N. Meridian, Carmel, Indiana. PCM is defined as an independent investment management firm that is not affiliated with any parent organization. PCM manages client portfolios in separate accounts which are held at various discount brokerage firms. PCM uses individual equities and bonds, no-load mutual funds, and ETF's (Exchange Traded Funds) in non-correlated tactical, absolute return and benchmark strategies. To obtain greater diversification in our portfolios, we may also use some "alternative assets" such as privately traded REITs.

We advocate an approach that takes into consideration the shortcomings of Modern Portfolio Theory. To address the inconsistency of asset class correlation we diversify our clients' portfolio into non-correlated strategies. We insist on risk management at the strategy level to guard against the reality of unexpected adverse price movement. This approach tends to smooth out portfolio performance. The result is smaller equity draw-downs in exchange for slight under-performance during rising markets. While there are no guarantees in investing, we believe the key to superior long-term performance is consistent positive returns.

Provident Capital Management is committed to providing the investment community with high-quality absolute return and tactical solutions that are non-correlated, liquid and transparent. We offer a non-traditional approach built upon fundamentally solid investment principles (diversification and risk management) and believe this approach can be an attractive alternative to hedge funds, mutual funds, and traditional buy and hold strategies. The success or failure of tactical and absolute return strategies depend upon many factors including but not limited to the manager's ability to avoid large market losses. There can be no guarantee that PCM will be able to avoid such losses or that PCM will be able to identify periods of weak performance in the stock market.

## Item 2 Material Changes

The following are material changes that Provident Capital Management, Inc. (PCM) has made since our last ADV/Brochure update on March 31, 2010:

In order to concentrate fully on providing investment advisory and investment management services, PCM ceased actively seeking financial planning clients.

In order to concentrate fully on providing investment advisory and investment management services, PCM ceased actively seeking estate-planning clients.

PCM has discontinued its Large Cap Value portfolio and subsequently, its relationship with Granite Investment Advisers, the sub-adviser for this account.

To obtain risk-management at the strategy level, PCM has replaced its “All Cap Growth” adviser with NorthCoast Asset Management. NorthCoast uses stop loss orders on each of the equity positions it holds to limit down side exposure.

PCM added Richard Todd Wood, an MBA from Norte Dame, to our management team as Chief Operating Officer.

PCM started offering sub-advisory services, on our strategies, to other Registered Investment Advisors and broker dealers.

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## **Item 4 Advisory Business**

### **SERVICES**

Provident Capital Management, Inc. is a fee-only investment advisory and investment management firm. The firm was started January 2000 by founder and owner Michael J. Chapman, CFP®.

Services Offered:

- Investment Planning and Evaluation Services
- Money Management Services
- Sub-Advisory Services

### **INVESTMENT PLANNING AND EVALUATION SERVICES**

PCM offers Investment Planning and Evaluation Services (IPE Services) to individual clients and institutional pools of assets, such as qualified retirement plans, not-for profit organizations and endowments or foundations, to improve portfolio returns.

PCM's IPE Services typically include:

- Moneymax™ Profile
- Investment Policy Statement
- Historical Performance Evaluation
- Investment Recommendations
- Investment Manager Search, Selection and Due Diligence
- Performance Measurement and Monitoring of Investment Managers

The Moneymax™ personality profile (nationally researched and tested) provides insights into financial traits that affect how one earns, spends, saves, and invests money. PCM uses it primarily to determine risk tolerance levels and how to best communicate with clients.

An Investment Policy Statement is a written document that articulates the specific goals and objectives for a given investment pool. Included in a typical policy are the following:

- Background information
- General objectives
- Risk tolerance and capacity
- Asset allocation guidelines
- Asset diversification guidelines
- Benchmarks for assessing investment manager results
- Securities guidelines
- Control Procedures

## **INVESTMENT PLANNING AND EVALUATION SERVICES (Continued)**

Historical Performance Evaluations primarily involve the gathering of data for five to seven years on each component of a client's portfolio. Each is separately evaluated against suitable performance benchmarks. Additionally, overall correlation of components to each other is reviewed to determine the level of diversification in the portfolio. This analysis often serves as part of the rationale for PCM's recommendation of whether a client's current investment manager should be terminated or retained.

PCM's fees for the development of an Investment Policy Statement and Historical Performance Evaluation are primarily based upon time and are billed as a non-recurring (first year only) "base fee." Should the client elect to retain PCM as investment advisor, up to 50% of base fee may be applied towards the first year of advisory fees.

Investment Recommendations focus primarily upon strategic allocation and diversification issues and risk reduction techniques. Investment portfolios are generally advised to include multiple investment strategies and styles that have a low correlation, thereby increasing diversification attributes.

Investment Manager Search and Selection includes the recommendations of specific money management organizations that are strong candidates to fulfill the strategy allocation requirements called for in the policy guidelines.

Performance Measurement and Monitoring of Investment Managers involves monthly data entry into PCM's computer system of all relevant portfolio information for every client account. From this source, performance is quantified and evaluated, including a host of various analytical procedures.

On a quarterly basis, clients receive a written report that illustrates their portfolio returns on a time-weighted basis and compares these to various applicable benchmarks (i.e., market indices, risk measurements and peer groups of similarly managed accounts).

Monitoring also includes regular contact with the money management firms employed. Topics include changes in the manager's organization, continuity of portfolio management personnel, investment outlook and various items for follow-up noted in the quantitative performance measurement and evaluation noted earlier.

Ongoing Performance and Evaluation Service fees are billed differently than other IPE services. Ongoing Performance and Evaluation Services are invoiced quarterly in advance and are based on a percentage of assets. Client asset values are generally consolidated by asset class including equity, equity/balanced, fixed income, and miscellaneous/alternative. Percentages range from .10% to .25% depending upon the portfolio size, circumstances, asset classes, and the amount of work included in an engagement.

Clients can terminate the contract by giving written notice and will receive a prorated return of any fees paid in advance.

## **MONEY MANAGEMENT SERVICES**

Provident Capital Management, Inc., (PCM) invests clients' accounts with the goal of capital appreciation in up markets and preservation of capital in down markets. We advocate an approach that takes into consideration the shortcomings of Modern Portfolio Theory. To address the inconsistency of asset class correlation we diversify our clients' portfolio into non-correlated strategies. We insist on risk management at the strategy level to guard against the reality of unexpected adverse price movement. This approach tends to smooth out portfolio performance. The result is smaller equity draw-downs in exchange for slight under-performance during rising markets. While there are no guarantees in investing, we believe the key to superior long-term performance is consistent positive returns.

Provident Capital Management is committed to providing the investment community with high-quality absolute return and tactical solutions that are non-correlated, liquid and transparent. We offer a non-traditional approach built upon fundamentally solid investment principles (diversification and risk management) and believe this approach can be an attractive alternative to hedge funds, mutual funds, and traditional buy and hold strategies. The success or failure of tactical and absolute return strategies depend upon many factors including but not limited to the managers ability to avoid large market losses. There can be no guarantee that PCM will be able to avoid such losses or that PCM will be able to identify periods of weak performance in the stock market. PCM offers the following investment choices to clients in managing discretionary separate accounts.

- U.S. Equity Growth (All Cap) –Subadvised by NorthCoast Asset Management
- PCM Protected Equity Income
- U.S. Fixed Income – PCM Laddered Bond Portfolio
- Dynamic International ETF Portfolio – Tactical ETF Strategy, International Only
- PCM Absolute Return Strategy
- Dynamic Overlay – Tactical ETF Strategy
- Global Balanced Portfolios – A combination of the above strategies, tailored to each individual client

Client portfolios are tailored to each client's investment objective by the percent or mix of the various strategies used.

Restriction on certain securities or type of securities by client is allowed.

As of December 31, 2010, Provident Capital Management had \$71,450,000 under management. Of that, \$70,000,000 was invested in discretionary portfolios, and \$1,450,000 was non-discretionary.

## **SUB-ADVISORY SERVICES**

Provident Capital Management will act as Sub-Advisor in our strategies for other Registered Investment Advisors and Broker Dealers.

## **Education and Business Background:**

**MICHAEL J. CHAPMAN, CFP®**

Year of Birth: 1957

Formal education after high school:

Certified Financial Planner (CFP®)  
College of Financial Planning  
Denver, Colorado

Purdue University  
B.S. Economics  
West Lafayette, Indiana

Business Background:

Provident Capital Management, Inc.  
President  
Carmel, Indiana 1/00 to Current

Cambridge Investment Research  
Investment Adviser and broker  
Fairfield, Iowa 1/00 to 4/03

NatCity Investments  
Certified Financial Planner  
Investment Adviser  
Director Wealth Management Group  
Indianapolis, Indiana 1/99 - 1/00

NatCity Investments  
Certified Financial Planner  
Investment Adviser  
Office Manager  
Indianapolis, Indiana 1/97 - 1/99

A.G. Edwards & Sons  
Certified Financial Planner  
Investment Advisor  
Indianapolis, Indiana 1/89 – 1/97

## **JEANNIE HEBERMEHL VAN ALLEN**

Year of Birth: 1961

Formal education after high school:

Ball State University  
B.S. Finance  
Muncie, Indiana

Butler University  
Partial Fulfillment of class work required for Masters of Business Administration  
Indianapolis, Indiana

Business Background:

Provident Capital Management, Inc.  
Vice President  
Carmel, Indiana 11/06 to Current

Oxford Financial Group, Ltd.  
Sr. Project Manager / Manager Analysis, Reporting and Cost Basis  
Carmel, Indiana 10/89 to 06/06

## **ROBERT RAFAEL**

Year of Birth: 1945

Education:

Meramec Community College  
6/66 - 6/68  
Forest Park Community College  
6/68 - 6/69

Business Background:

MRM Asset Allocation Group, Inc.  
12400 Olive Boulevard Suite 450  
St. Louis, Missouri 63141

Investment Advisory Firm  
President/Treasurer/Director 8/88 - present

Robert Rafael started his career in the investment business in 1970, first as a stock and commodities broker and then in 1988 he became a founding principal of MRM Asset Allocation Group, Inc., a registered investment advisor firm.



## **RICHARD TODD WOOD**

Year of Birth: 1971

Formal education after high school:

Ball State University  
B.S. Political Science  
Muncie, Indiana

University of Notre Dame  
Masters in Business Administration  
Notre Dame, Indiana

Business Background:

Provident Capital Management, Inc. Chief Operating Officer Carmel, Indiana	2010-Current
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Global Asset Advisors VP Institutional Services Chicago, Illinois	2009-2010
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Biopure Corporation Chief Financial Officer Boston, Massachusetts	2007-2009
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Merrill Lynch Financial Consultant Indianapolis, Indiana	2004-2007
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Morgan Stanley Financial Advisor Indianapolis, Indiana	2003-2004
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TerriGraphix, Inc. Founder, CEO Carmel, Indiana	2000-2003
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**THOMAS HEFLIN REDMOND JR.**

Year of Birth: 1951

Formal education after high school:

Butler University  
BA Education  
Indianapolis, IN

Business Background:

Provident Capital Management, Inc. Director of Institutional Services Carmel, Indiana	2010-Current
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Velocity Capital Risk Management Sales Indianapolis, IN	2009-2010
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NEXT Financial Sales Indianapolis, IN	2007-2009
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Faith Financial Planners Sales Carmel, IN	2001-2007
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Capital Financial Services Registered Representative Minot, ND	2005-2007
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Empire Financial Group Registered Representative Longwood, FL	2003-2005
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Empire Investment Advisors Investment Advisor Representative Longwood, FL	2004-2005
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Freedom Financial Inc. Registered Representative Omaha, NE	2002-2003
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SII Investments/Capitol Financial Center Registered Representative Indianapolis, IN	2001
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**THOMAS HEFLIN REDMOND JR. (Continued)**

Highmark Sales Manager Indianapolis, IN	1999-2001
Tower Equities Registered Representative Dayton, OH	2000
Redmond International Owner Carmel, IN	1990-2000

## **Item 5 Fees and Compensation**

### **FEES**

Money management fees are billed quarterly generally in advance, based upon the market value of the account at the end of the current quarter. (In some cases, a client is also billed for the balance of the quarter in which his account was opened in addition to the following full quarter, and in some cases, billing is in arrears.) Fees are deducted from client accounts. Fees range from .30% for Fixed Income to 1.50% for Investment Strategies per year. Fees are negotiable within these ranges. Applicant offers a fee arrangement that includes a ¼% performance bonus payable 30 days from end of the performance period if the account achieves a prenegotiable rate of return for the previous calendar year. The percentage is calculated based upon the value of the account at the end of the applicable year. The performance bonus fee is only available to clients that qualify under rule 205-3 of the Investment Advisors Act of 1940.

In certain situations, PCM may consider receiving fees based on criteria other than a percentage of assets under management, such as a fee based on the performance of the account. Performance based fees may create an incentive for PCM to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee. Additionally, PCM's compensation may be larger than it would otherwise have been because the fee will be based on account performance instead of percentage of assets under management. Any performance bonus fee arrangement will comply with the requirements of rule 205-3 under the Investment Advisors Act of 1940.

Holdings in PCMs' Dynamic International ETF Portfolio, Dynamic Overlay, the U.S. Equity Growth accounts and PCM Absolute Return Strategy will include investment companies that pay a separate management fee to third party advisors. PCM will not receive any commissions or fees from these investment companies. However, the fees paid to the investment companies or third parties may be in addition to the fees paid by the client to PCM. As an example, the Dynamic Overlay might hold the S&P 500 ETF (Exchange Traded Fund). The internal management fee for this ETF is 9/100's of 1%, or 9 basis points.

### **TERMINATION**

Either party, upon 30 days written notification in accordance with the applicable contractual notice of termination, may terminate PCMs' services. Upon termination the fees described above will be pro-rated. Upon termination of the contract, security positions in client portfolios will generally, at the client's request, be liquidated; however, if in some instances, where for example liquidation is impossible or impractical, client portfolio securities may be delivered in kind to the client upon termination at the discretion of PCM.

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

In certain situations, PCM may consider receiving fees based on criteria other than a percentage of assets under management, such as a fee based on the performance of the account. Performance based fees may create an incentive for PCM to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee. Additionally, PCM's compensation may be larger than it would otherwise have been because the fee will be based on account performance instead of percentage of assets under management. Any performance bonus fee arrangement will comply with the requirements of rule 205-3 under the Investment Advisors Act of 1940.

Provident Capital Management, Inc. offers a fee arrangement that includes a ¼% performance bonus payable 30 days from end of the performance period if the account achieves a prenegotiable rate of return for the previous calendar year. The percentage is calculated based upon the value of the account at the end of the applicable year. The performance bonus fee is only available to clients that qualify under rule 205-3 of the Investment Advisors Act of 1940.

## **Item 7      Types of Clients**

Provident Capital Management's retail client base has primarily been the high net-worth (\$1 – \$ 20 million) retired individuals and their family members.

In 2010, we began serving as the money manager (sub-advisor) for various Registered Investment Advisors and investment advisors with certain broker dealers.

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

Provident Capital Management seeks to invest client portfolios in various strategies that are not closely correlated. Quarterly correlation screens are run and rolling one, three and five year correlation is reviewed to insure that strategies continue to have a low correlation (less than .75) to each other.

At the strategy level, we want to see risk management parameters in place that reduce exposure to long term bear markets.

As an example, our Protected Equity Income strategy uses Puts (a right to sell the underlying security within a given period of time for a specific price) to limit down side exposure. Our U.S. Equity Growth strategy, managed by sub-adviser NorthCoast Asset Management, uses Stops (orders to get out at specific price levels if the price of the individual equity they are holding drops below a certain point) to limit down side exposure. Our Absolute Return Strategy also uses stop loss orders to protect capital. The Dynamic Overlay strategy is reallocated every six weeks and the equity allocation will range from 30 to 100 percent depending on the passing of six separate tests.

There can be no assurance that any or all these various measures will be successful in protecting capital. Investing in securities involves risk of loss that investors must be willing to bear.

Our strategies may involve frequent transaction which could increase transaction cost and, in taxable accounts, make gains subject to short term instead of long term tax treatment.

See discussion of each strategy below for further detail.

## **U.S. EQUITY GROWTH (ALL CAP)**

PCM provides investment supervisory services on a discretionary basis. The U.S. Equity Growth accounts are managed with the investment objective of growth of capital. In seeking this objective PCM invests primarily in securities of large, mid-capitalized and small-capitalized companies that it believes to be rapidly growing and offer the potential for capital appreciation. Current income from interest and dividends will be minimal. Up to fifty percent of this account may be invested in small-capitalized companies that PCM believes to be the leading companies of tomorrow.

## **DIVERSIFICATION**

PCM will hold 6 to 30 stocks in this account. It is expected that each stock will represent 3% to 10% of the account but at times may be as high as 20%. Industry concentration is expected to be 10% to 20%.

## **STOCK SELECTION PROCESS**

Provident Capital Management's U.S. Equity Growth accounts designate NorthCoast Asset Management as an investment advisor under the terms of the Investment Sub Advisory Agreement. Subject to supervision and direction by PCM, NorthCoast will manage client accounts in accordance with its investment management philosophy and policies and pursuant to any instructions from the client and/or PCM. NorthCoast will determine what securities will be purchased, retained or sold with respect to each client's accounts and what portions of clients' accounts will be invested or held uninvested in cash. NorthCoast will enter all orders through TD Ameritrade and/or Charles Schwab trade desk. NorthCoast has a minimum account size of \$100,000. NorthCoast uses stop loss orders on equity positions to protect capital. Allocation to equities will vary from 10 to 100 percent.



## **PCM PROTECTED EQUITY INCOME**

PCM Protected Equity Income accounts are managed with the investment objective of producing income and growth of capital. In seeking this objective, PCM invests in dividend paying stocks or dividend ETFs with appreciation potential. Investors have the option to elect principal protection which involves the purchase of out of the money puts. The purchase of puts is not a guarantee to protect 100% of principle but is a form of insurance against shocks to the portfolio. Investors may lose principle in this strategy.

## **DIVERSIFICATION**

PCM will hold 20 to 30 stocks in the PCM Protected Equity accounts. It is expected that each stock will represent 3% to 5% of the account but at times may be as high as 15%. Industry concentration is expected to be 10% to 15% but at times may be as high as 20%. Dividend ETFs may be used as an alternate to individual equities.

## **STOCK SELECTION PROCESS**

The stocks in the PCM Protected Equity accounts have passed through a series of fundamental and technical screens. PCM takes the universe of dividend paying stocks including international companies and screens current yield, expected dividend increase plus earnings increase over the next 12 months. The strategy filters out candidates by payout ratios, then ranks the remaining stocks by PCM's proprietary momentum screen. PCM selects the top 20 non utility stocks and up to 10 utility stocks, or appropriate ETFs.

## **SELL CRITERIA**

Stocks in the PCM Protected Equity accounts will be sold and replaced with another candidate if:

- The analyst lower dividend estimates on any stock
- The analyst lower earnings estimates on any stock
- A selected stock fails to meet the screening criteria during any rebalance period
- Selected stock is stopped out based upon PCM risk parameters

## **U.S. FIXED INCOME**

Provident Capital Management, Inc., will invest clients U.S. Fixed Income accounts in high quality (AAA, AA rated) taxable and non-taxable bonds. The primary goal of this account will be to produce consistent positive returns and regular income. To achieve this objective the average maturity of the bond portfolio is kept at three to five years. Bonds are arranged in the portfolio to mature each year over an agreed upon time period. The time period may vary from three to ten years depending on the desires of the client. It is expected that each bond will be held to maturity.

Provident Capital Management, Inc., in addition to holding individual bonds as outlined above, offers investors a bond strategy utilizing bond ETFs and/or mutual funds. The bond investments are rotated according to economic and market factors as frequently as monthly. Investments in the bond strategy may be concentrated and hold up to 100% of the allocation in a single bond investment. Provident Capital Management seeks to only invest in highly liquid ETFs or mutual funds, but the firm cannot offer guarantees, as ETFs and mutual funds differ from holding individual bond issues. Bond ETFs and mutual funds do not offer a return of principle and are considered an equity security. ETF and mutual fund holders may not be offered the same protections as holders of individual issues in the event of default of the bond issuer. However, because of the diversification with the ETFs and mutual funds, we believe single issue default risk is mitigated due to the diversification of the funds.

The Provident Capital's Bond strategy consists of ETFs and or mutual funds selected on macro-economic, yield, and strength of performance bases.

Components include but are not limited to: (1) Longer Term United States Treasuries (+20 years) which seeks to approximate the total rate of return of the long term sector of the United States Treasury Market; (2) Emerging Market Bonds (3) an Aggregate Bond Fund which seeks investment results that correspond generally to the price and yield performance, before fees and expense of the Total United State investment grade bond (4) High yield bonds which seek to provide investment results, before fees and expenses, which correspond generally to the price and yield performance of high yield bonds (5) Short term United States Treasuries between 1-3 which seeks to approximate the total rate of return that corresponds generally to the price and yield performance, before fees and expenses, of the short-term sector of the United States Treasury Market.

The strategy rotates between various fixed income ETFs or mutual funds based upon previously mention factors. Investors may hold between one (1) or more ETF or mutual fund at any given time. Concentration in a single ETF or mutual fund can be expected. Provident Capital may elect to change the ETFs or mutual funds or the strategies exposure to other EFTs and mutual funds with varying durations, geographic focus, sector and yield curve exposure at any time.

## **DYNAMIC INTERNATIONAL ETF PORTFOLIO**

This portfolio seeks to rotate investments among country-specific and country-blended Exchange Traded Funds (ETF's) that offer the greatest potential for capital appreciation primarily through equity investments in developed foreign and emerging markets. There are more than 35 country ETF's that are publicly traded in the United States.

Provident Capital Management receives research from its associated company MRM Asset Allocation Group, Inc. (Saint Louis, Missouri) quarterly. This research lists which ETF stocks to buy as well as the desired percent allocation. PCM makes the allocation and then enters the trades in a batch order. Clients receive the average price of the batch order. Trades are made quarterly and therefore the account may not be as tax efficient as our other equity accounts.

## **PCM ABSOLUTE RETURN STRATEGY**

Provident Capital Management, Inc., will invest clients' PCM Absolute Return Strategy in timely sector and index no load mutual funds (both closed and open ended) and Exchange Traded Funds with the objective of increased returns over the general market indices. The benchmark for this account is the S&P 500 index. The portfolio objective is "Absolute Positive Returns".

## **DIVERSIFICATION**

The PCM Absolute Return Strategy (PCM ARS) will have concentrated holdings of leading Indexes, sectors and or industry groups. Therefore, it will not be heavily diversified. It is expected that the clients' PCM ARS accounts will hold two to four of the leading Indexes, sector or industry groups. It may, at any given time, hold up to 100% in one Index, Industry or sector. PCM may also use "bear market" funds (mutual funds or ETF's that go up when its underlying index declines). Additionally, this account may use long or short leveraged funds. It is anticipated that much of the accounts trading will be done in long or short leveraged mutual or Exchange Traded funds. Trades are entered as "batch" orders. Clients receive the average price of the batch order. For accounts held at the Rydex Family of Funds orders are placed at 10:30 am and/or at 3:30 pm. For accounts held at FolioFX, orders are placed at 11:00 am and/or 2:30 pm. Clients receive the posted price for the applicable time.

The firm's founder, Michael Chapman, keeps a large percentage (+50%) of his personal investment capital in this strategy. His account will trade at Rydex Funds at the same time (10:30 am and/or 3:30 pm) as clients in this strategy.

## **DYNAMIC OVERLAY**

Dynamic Overlay seeks capital growth by exploiting the efficiencies of Exchange Traded Funds (ETFs) or mutual funds within the framework of broadly diversified portfolios. The economy moves through cycles and the various asset classes perform differently at various points within the cycles. Minimum target allocations among available asset classes are established, then the quantitative and rules-based Dynamic Overlay is implemented to both manage downside risk and import alpha from asset classes that may complement the core allocations irrespective of market trend or condition.

Dynamic Overlay employs both a strategic (passive) and tactical (active) allocation, as each has benefits. The best approach is to combine both to achieve a dynamically balanced portfolio. This investment strategy does so with rules-based and quantitative management techniques in a multi-part process.

## **GLOBAL BALANCED PORTFOLIO**

Provident Capital Management, Inc., (PCM) invest clients' Global Balanced Portfolios by diversifying our clients' portfolio into non-correlated strategies. The goal is to produce consistent positive yearly returns. The portfolios are first assigned an agreed upon allocation to laddered maturity fixed income and equities. The fixed income portion is invested as described under U.S. Fixed Income. Equities are diversified according to clients' written investment policy. No load mutual funds, Exchange Traded Funds and independent money managers are used to achieve the equity strategy diversification. PCM may act as manager for the tactical and absolute return portion of the portfolio via our Dynamic International, PCM Absolute Return Strategy, Dynamic Overlay or PCM's U.S. Fixed Income strategies.

## **Item 9      Disciplinary Information**

In March of 2005, Provident Capital Management, LLC merged into Provident Capital Management, Inc. Provident Capital Management, Inc. thought that its investment adviser representative was registered with the Indiana Secretary of States, Securities Division, but, due to an administrative error, he was not. This issue was resolved through a consent agreement, with the Indiana Secretary of State, Securities Division, dated February 15, 2011, in which the Securities Division made no finding of any violation and a civil penalty was paid. Provident Capital Management, Inc. was registered at all times with the United States Securities and Exchange Commission.

## Item 10 Other Financial Industry Activities and Affiliations

### Mortgage Broker

Michael J. Chapman has a mortgage brokers license and owns 100% interest in Provident Lending, Inc. a mortgage brokerage company. Advisor may refer advisory clients to Provident Lending for purposes of client retaining a mortgage. All compensation received by Provident Lending will be disclosed to customers of Advisor who apply for loans. Provident Lending may occasionally refer customers to the Advisor. No referral fees or other compensation will be paid by Advisor for referral.

### Other Financial Industry Activities or Affiliations:

### Insurance Agent

Michael J. Chapman is no longer active as an insurance agent. Mr. Chapman will not receive any commissions on policies purchased by clients. For the purpose of life insurance, it is Mr. Chapman's practice to bring in an outside insurance broker who works full time with high net worth individuals designing insurance solutions. This individual acts as an independent broker and can seek out the best opportunities for clients from many different companies. There is no additional cost to the client for this service.

Thomas H. Redmond Jr. does have an insurance license. He may sell insurance and / or annuities. Provident Capital Management does not receive any compensation for any of this business. Provident Capital Management does not recommend or endorse any commission based insurance or annuity products.

### Other Investment Adviser

Provident Capital Management (PCM) may engage various sub-advisers to provide investment supervisory services to clients whenever PCM believes that the sub-advisers' services will enhance the overall investment advice given to clients. PCM will provide clients whose accounts are sub- advised with a copy of the Sub adviser's brochure, which explains fully the services to be rendered by the sub-adviser. PCM may refer clients to other advisory firms and share in that advisory firm's advisory and/or performance fees. (These are often referred to as "third-party money managers.") Full disclosure of any advisory or performance fee sharing will be made up front to clients prior to implementing any recommendations. Additionally, all performance based fee arrangements will comply with the requirements of Rule 205 – 3 under the Investment Advisers Act of 1940.

Provident Capital Management, Inc. ("PCM") and MRM Asset Allocation Group, Inc ("MRM") are associated companies and have entered into a unique agreement where both companies have the right to use investment strategies developed by each company to manage and sub manage accounts for investors. Although each company remains under separate ownership for the present time, PCM and MRM have agreed to share their respective investment systems with each other, to provide full statistical and logistical support for their respective systems and to work together to develop further enhancements. PCM and MRM have entered into cross licensing agreements and a business continuity agreement to provide for continued management of client assets in the event of the retirement, death or disability of the principal of either company.

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

### **Education and Business Standards:**

Provident Capital Management, Inc., requires that all individuals involved in determining or giving investment advice to clients possess the highest ethical standards and technical abilities necessary to meet the needs of those who retain PCM's services. Provident Capital Management will provide a copy of the PCM code of ethics upon request.

### **Employee security trading policy:**

PCM or any related person(s) may have an interest or position in certain securities that may also be recommended to a client. PCM has established the following restrictions in order to ensure its fiduciary responsibilities:

- 1) A director, officer or employee of PCM shall not buy or sell securities for their personal portfolio where their decision is substantially derived, in whole or in part, by reason of his or her employment with PCM unless the information is also available to the investing public on reasonable inquiry.
- 2) PCM maintains a list of all securities holdings for itself, and anyone associated with the investment advisory practice. These holdings are reviewed on a regular basis by the principals.
- 3) PCM requires that all individuals associated with the firm must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- 4) No order for PCM or an officer, director or employee may be run together with a transaction for a client. Mutual fund trading platforms are an exception.
- 5) Once PCM decides to recommend a transaction to customers, orders must be placed and filled for customers before PCM or an officer, director or employee places order in the same security unless the compliance officer or his designee determines that the execution of the trade for PCM or an officer, director or employee is unlikely to delay the execution of a customer order or effect the price obtained by a customer. The compliance officer will make a record of all requests and of the decisions regarding those request. This does not prohibit an officer, director or employee from purchasing a security before it is recommended to clients provided that the other provisions of the trading policy are followed.
- 6) All access persons are required to report their personal securities transactions. All personal securities transactions are reviewed by an employee not involved in the trade on a quarterly basis.

## Item 12 Brokerage Practices

Equity trades placed at brokerage firms are aggregated and then allocated based on an average price. Some accounts may pay more than if trades were executed individually.

Brokerage discretion and client – directed brokerage arrangements:

In general, investment advisory clients of PCM will be referred to one or more of the following broker dealers or registered investment companies. (This list is not inclusive; other broker dealers may be used): 1) Charles Schwab and Company, 2) TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC/NFA, 3) Rydex Family of Funds or 4) FolioFX.

Factors considered when selecting brokers:

Professionalism, quality of execution, reliability, integrity, and financial stability.

Factors in determining the reasonableness of their commissions:

Commissions are one of several important factors to consider in choosing the appropriate broker. PCM desires the most competitive commissions from brokers for the clients' security executions.

Value of products, research and services:

PCM searches out and desires its clients have the most appropriate and suitable products for their needs.

Higher commissions: generally, clients pay competitive commissions for similar products and services from similar brokers.

Research: N/A

Transactions for products: N/A

Advisor 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 and FINRA member. TD Ameritrade offers to independent investment Advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the program. (Please see the disclosure under Item 14 below.)



## **Item 13    Review of Accounts**

### **Condition for Managing Accounts:**

With regard to professional money management, there are stated minimums depending upon the manager selected and specific scope of services. These minimums include both the amount that must be managed or monitored initially and /or a minimum annual fee to be invoiced. All of this is discussed with client prior to agreement to begin this service.

### **A. Review of money management accounts:**

Most portfolios are reviewed at some level monthly. Reviews, or special reviews not involving all accounts, are triggered by one or more of the following: 1) A change in investment objectives, financial situation and/or guidelines, 2) Diversification, 3) Equity ratio, 4) Tax considerations, 5) Cash added or withdrawn from management, 6) Purchase or sale of a security, and 7) computer exception reports which monitor cash available for investment and security holdings whose size exceed certain guidelines.

### **B. Nature and frequency of regular reports for investment advisory clients:**

Investment advisory clients receive monthly custodial transaction and asset statements. PCM conducts reviews (in person or via phone) with clients, generally, on a quarterly (calendar) basis to discuss the status of their account(s). PCM provides a quarterly statement of assets that presents a concise summary of the cost or other basis and current market value of all managed assets held in the portfolio at the close of each quarter. PCM provides clients with year-end summaries of transactions for capital gains and losses.

## Item 14 Client Referrals and Other Compensation

Additional compensation:

PCM may participate in TD Ameritrade and/or Charles Schwab & Company's Financial Advisors Service and other such programs. While there is no direct linkage between the investment advice given and participation in these programs, economic benefits are received which would not be received if PCM did not give investment advice to clients. These benefits may include: receipt of duplicate client confirmations and bundled duplicate statements, access to a trading desk, access to block trading that provides the ability to aggregate securities transactions and allocate the appropriate shares to client accounts, ability to have investment advisory fees deducted directly from client accounts, access (for a fee) to an electronic communications network for client order entry and account information, receipt of compliance publications, and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors.

As disclosed under Item 12.B. above, Registrant participates in TD AMERITRADE's INSTITUTIONAL customer program and Registrant may require clients to maintain accounts with TD AMERITRADE/recommend TD AMERITRADE to clients for custody and brokerage services. There is no direct link between Registrant's participation in the program and the investment advice it gives to its clients, although Registrant 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): 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 Registrant by third party vendors. TD AMERITRADE may also have paid for business consulting and professional services received by Registrant's related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for Registrant's 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 Registrant but may not benefit its client accounts. These products or services may assist Registrant in managing and administering client accounts, including accounts not maintained at TD AMERITRADE. Other services made available by TD AMERITRADE are intended to help Registrant manage and further develop its business enterprise. The benefits received by Registrant [or its personnel] through participation in the program do not depend on the amount of brokerage transactions directed to TD AMERITRADE. Clients should be aware, however, that the receipt of economic benefits by Registrant or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Registrant's choice of TD AMERITRADE for custody and brokerage services.

## Additional compensation (Continued)

Registrant 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. Registrant may make these Additional Services available to its affiliates without cost. Specifically, the Additional Services include the Schwab Performance Technology Portfolio Center. TD AMERITRADE provides the Additional Services to Registrant in its sole discretion and at its own expense, and Registrant does not pay any fees to TD AMERITRADE for the Additional Services. Registrant and TD AMERITRADE have entered into a separate agreement (“Additional Services Addendum”) to govern the terms of the provision of the Additional Services.

Registrant’s receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Registrant, TD AMERITRADE most likely considers the amount and profitability to TD AMERITRADE of the assets in, and trades placed for, Registrant’s client accounts maintained with TD AMERITRADE. TD AMERITRADE has the right to terminate the Additional Services Addendum with Registrant, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD AMERITRADE, Registrant may have an incentive to recommend to its clients that the assets under management by Registrant be held in custody with TD AMERITRADE and to place transactions for client accounts with TD AMERITRADE. In addition, Registrant shares the Additional Services with its affiliated entities. Consequently, Registrant’s clients’ brokerage commissions and custodial fees generated at TD AMERITRADE may be used to benefit Registrant’s affiliates. Registrant’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.

Registrant has agreements with brokerage firms and investment advisory firms to provide advisory services to clients of those entities. Sometimes the services are performed as a sub advisor and sometimes the services are provided as a model manager. When the ultimate client selects PCM, the advisory fee is shared between PCM and the brokerage firm or investment advisory firm for the ultimate client. There is no other compensation to PCM other than a share of the advisory fee charged to the ultimate client.

## **Item 15 Custody**

Not applicable to this firm.

## **Item 16 Investment Discretion**

The firm only accepts new accounts when it is given full investment discretion, (i.e. to make investment decisions for the account without prior consultation with the client). The firm's discretionary authority regarding investments may, however, be subject to certain limitations, e.g. restrictions or prohibitions placed by the client on transactions in certain types of securities or industries. Any such limitations are to be agreed upon in advance with each client.

Equity trades placed at brokerage firms are aggregated and then allocated based on an average price. Some accounts may pay more than if trades were executed individually.

## **Item 17    Voting Client Securities**

### **PROXIES**

Adviser will not vote proxies. Client is responsible for proxy voting.

## **Item 18 Financial Information**

Not applicable to this firm.

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

Not applicable to this firm.