

# Investment Adviser Brochure

## (Form ADV Part 2)

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### **A. Form ADV Part 2A – Firm Brochure**

#### **1. Cover Page**



**Gaia Capital Management, Inc.**

Registered Investment Adviser  
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[www.gaiacapital.com](http://www.gaiacapital.com)

Dated 3/24/16

This brochure provides information about the qualifications and business practices of Gaia Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us by email at [jim.pursley@gaiacapital.com](mailto:jim.pursley@gaiacapital.com) or by phone at 800-395-6636. 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. Registration as an investment adviser does not imply a certain level of skill or training.

Additional information about Gaia Capital Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

#### **2. Material Changes**

There are no material changes to this brochure since the last annual update made on 2/20/15.

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## 4. Advisory Business

- A. Gaia Capital Management, Inc. is a Registered Investment Adviser with its corporate and administrative headquarters located in Forest Grove, Oregon USA. We were founded in 1991 by James C. Pursley, the principal and sole owner, who manages and directs principal business operations from his office in Caldas Novas, Brazil. Our mission is to:
- Enhance prosperity in the world through wise counsel, inspired action and astute money management
  - Exercise financial stewardship with integrity, expertise, and vision
  - Guide client accounts through good times and bad with consistency and focused attention to client goals and needs
  - Shape the client retirement experience with high, sustainable and rising income
- B. Our advisory service consists exclusively of investment supervision and management of client accounts, using equity securities such as common stocks and preferred stocks and investment company securities such as exchange traded funds, mutual funds and closed end funds. We do not use quantitative analysis, market timing or any other short-term trading strategy. However, because we manage client accounts with great attention to their needs and tolerance for risk and volatility, we may employ defensive strategies such as raising of cash levels and hedging from time to time. See Item 8.B for more details on the uses of securities in our investment management strategies.
- C. We tailor our services to the individual needs of clients within the parameters of their needs and tolerance for risk, determined by an investment profile we develop through interview and questionnaire. For clients with needs and constraints which do not fit into one of our programs, we place them in a non-classified program where each account is managed according to its very specific needs such as an extreme aversion to volatility or restrictions imposed on types of securities or companies to invest in.
- D. We are not involved in wrap fee programs.
- E. We manage all client assets on a discretionary basis pursuant to the client's investment profile (see Item 4.C above). This means that we maintain authority to determine the securities or the amount of securities to be bought or sold, without additional prior client approval. As of December 31, 2015 our assets under management were \$20.2 million.

## 5. Fees and Compensation

- A. We are paid for our services through fees based on a percent of all assets in a client's account. Fees begin at 1.25% and decline for assets over \$100,000. Our minimum annual fee is \$75, reduced to \$25 during the first two years for new contributory retirement accounts that start with a zero balance. We also offer a Customer Appreciation Discount for continuous client relationships: 3% after two years, 5% after five years and to 10% after ten years. For example, the fee for a new client investing \$600,000 is \$5,800, whereas the fee for a client with the same sized investment that has been with us for 10 years is only \$5,220. Fees are negotiable. Exceptions to the posted fee schedule are: 1) employees of Gaia Capital Management, Inc. and immediate family of James C. Pursley and 2) fee arrangements made for employer retirement plans prior to 2006.

Annualized Fee Schedule	
Ending Account Balance ( <i>rounded to nearest dollar</i> ):	Tiered Fee:
\$ 1 to \$ 100,000	1.25% of assets
100,000 to \$ 500,000	\$ 1,250 + 0.95% over \$ 100,000
500,000 to \$1,000,000	\$ 5,050 + 0.75% over \$ 500,000
1,000,000 and above	\$ 8,800 + 0.65% over \$1,000,000

- B. By default, we deduct fees quarterly from client accounts; however, clients may request direct billing instead. Fees are calculated from the value of all client assets (for the entire household) as of the last day of the month preceding billing. We determine the billing month by last name as follows:

- A – H: January, April, July, October
  - I – Q: February, May, August, November
  - R – Z: March, June, September, December
- C. See Item 12.A concerning brokerage of client accounts. Our accounts at Fidelity Institutional Wealth Services (FIWS) have no account fees; however, accounts at other custodians may be charged administration and set-up fees. In addition to our investment management fee, accounts may incur commissions or trading fees on investment transactions in client accounts. Commissions and transaction fees vary by broker-dealer and may be less at other brokerage houses.
- D. Payment of fees in advance: Clients pay fees for the current quarter in advance, based on the billing cycle in Item 5.B. If our service agreement is terminated before the end of the billing period, we will refund the unearned fee on request, pro-rated to the date of termination. We do not charge a fee to terminate our service agreement, which may be done at any time.
- E. We do not receive compensation for the sale of securities or other investment products. We are compensated solely through our investment management fees as noted in Item 5.A.

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

We do not accept performance-based fees or practice side-by-side management.

## **7. Types of Clients**

We accept as clients anyone whose condition we can help through application of our investment discipline. The majority of our clients are individuals, which include trusts, estates, 401(k) plans and IRAs of individual clients and their family members. A small percentage of clients are small corporations. We do not require a minimum account size.

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

- A. Our main sources of research are financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange commission and company press releases. Through these sources, we implement charting, technical, cyclical and fundamental methods of security analysis. Investing in securities involves risk of loss that all clients should be prepared to bear. However, our research and risk management minimize the probability of serious and sustained loss.

Our investment management employs strategies that cover both income and growth investing, though we do not treat them as mutually exclusive. The great majority of our assets under management have both income and growth characteristics. We find growth alone (gains from price changes only) to be spotty and volatile, while income from dividends and interest is usually not sufficient to propel clients toward their financial goals. We may employ individual stocks and bonds as well as professionally managed funds and exchange-traded index funds, using the former for very special situations and for tax management where appropriate. Individual securities pose risk of gain or loss beyond that of managed funds because an individual security cannot diversify the risk that a particular issuer may fail or may succeed beyond expectations. We mitigate this business risk by buying securities in proportion to their risk of sustained and serious loss. Diversified investment vehicles such as mutual funds and exchange-traded funds are subject to volatility (up and down price movement) and market risk (the risk that a majority of securities in a particular market will rise or fall in tandem with each other).

We are long-term investors but do not just buy and hold security positions. To optimize the growth of account income (dividends and interest) and balance, we will rebalance positions from time to time and use offensive and defensive tactics necessary to realize income, cure conditions of overvaluation or to apply our strict loss management discipline to securities purchased. These tactics may require selling of securities from time to time, which may result in increased brokerage commissions and/or taxes.

- B. We do not limit investment selection to one security type, nor do we employ every security type available in our investments. The types of securities we use for investment selection include equity securities such as common stocks and preferred stocks and investment company securities such as exchange traded funds, mutual funds and closed end funds. We may also use individual bonds.

## **9. Disciplinary Information**

- A. There have been no civil or criminal actions in a court of jurisdiction.
- B. An administrative proceeding by our state regulatory agency, Oregon Department of Consumer and Business Services, Division of Finance and Corporate Securities (DFCS), was initiated and resolved December 2012. During a routine examination, the DFCS found that we and James Pursley failed to timely amend Mr. Pursley's Investment Adviser Representative Application for material changes including Mr. Pursley's change of address to Brazil and the lapse of his Certified Financial Planner (CFP) certification. The action taken resulted in a Consent Order to Cease and Desist from failing to file amendments with material changes and any violation of Oregon statutes and a Civil and Administrative Penalty of \$5,000, of which \$2,000 was suspended (Case #S-12-0103).
- C. There have been no self-regulatory organization (SRO) proceedings.

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

- A. We are not registered as a broker-dealer or representative.
- B. We are not registered for commodities or futures.
- C. James C. Pursley maintains a relationship with Michael P. Rezin Insurance Services, Inc. (MPR) and receives a portion of insurance commissions from them as a result of the transfer of policies to MPR from his dissolved insurance business, Anderson Pursley Insurance Services, Inc. These commissions will show as income on our company financial statements until the policies lapse or terminate. We believe that this arrangement does not create a material conflict of interest with any of our clients.
- D. We may use the services of another investment adviser as a sub-adviser for some of our investment programs which we believe does not create a conflict of interest. However, we do not receive compensation to recommend or select other investment advisers for our clients.

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

- A. We have adopted a Code of Ethics that outlines our dedication to act in the best interest of our clients through integrity, competence, vision and judgment. It is available to all clients or prospective clients on request.
- B. We do not have a material financial interest in any securities recommendations or transactions that we implement for ourselves or our clients.
- C. Many of our personal accounts are traded in exact proportion and timing with client accounts. As a result, our personal accounts may have the same investment strategy and include purchases and sales of securities in the same block trades with client accounts. Because our accounts are treated just like client accounts, and we stand to profit or lose along with our clients, we do not see that this practice presents a conflict of interest.
- D. See Item 11.C regarding recommendation or purchase and sale of securities to clients that may be the same as those used in our personal accounts.

## **12. Brokerage Practices**

- A. The majority of our client accounts are held at the Fidelity Institutional Wealth Services (FIWS) division of Fidelity Investments, which we recommend but do not insist that our clients use. FIWS serves as custodian, record keeper

and broker-dealer for accounts held there. Client benefits from the use of FIWS include: asset consolidation in one account, same day wire order service, hundreds of mutual funds at no fee to clients, exchange traded funds at no commission, no account fees, and commissions and transaction fees that may be lower than full service wire houses. We may establish accounts with other vendors or trust companies if they suit client needs better than FIWS.

1. Our benefits from the use of FIWS include: regulatory assistance, periodic informational conferences, automated trading and data downloads, quotes and news on securities. FIWS also provides limited mutual fund research through Morningstar. We do not use brokerage commissions (markups or markdowns) for research and do not receive soft dollar benefits.
  2. We do not receive client referrals from any broker-dealer.
  3. We do not permit client-directed brokerage transactions.
- B. We may buy and sell common stocks, individual bonds and exchange-traded or closed-end funds in individual accounts or aggregate the shares in a block trade for later allocation. Commissions are not affected and block trading allows us to get the same price for all clients and may improve the price we pay. We endeavor to get the best available pricing on security purchases for all clients.

### **13. Review of Accounts**

- A. All accounts are routinely reviewed at least weekly by James C. Pursley, President and Chief Investment Officer. Routine reviews scan accounts for errors, balances, position sizing and proportioning, and continued appropriateness of each position to client objectives and goals. To ensure that we are current with the needs and goals of our clients, Mr. Pursley reviews client financial and investment profiles every eighteen months if not sooner. Conferences may be held with any client as needed.
- B. More frequent reviews may occur at any time that may cause positions to be bought or sold, added to or reduced. These reviews are based on the macroeconomic picture and certain position-specific occurrences, such as management changes and other developments that in our opinion may positively or negatively impact performance. See Item 8.B for more details.
- C. We provide all clients with written quarterly performance reviews of their account(s) that may show securities held, cash invested, current value, percentage and dollar profit or loss and the relative contributions from dividends/interest and price appreciation to total return (performance). They may also include comparison of the entire portfolio against selected appropriate indexes. Additional written reports may be prepared on request or as-needed to keep clients informed about the progress of their accounts. We exercise great care in writing client reports for clarity and readability. Report data is taken directly from account information provided by the account custodian (such as FIWS) and may be shown in question and answer or tabular and chart format, as applicable. We encourage clients to compare the information provided on our performance reports with their statements from the account custodian. A client may request written account reports or telephone conferences at any time.

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

- A. We do not receive any economic benefit from non-clients for advisory services.
- B. We do not offer compensation for client referrals.

### **15. Custody**

We do not maintain custody of client funds or securities except to deduct investment management fees from client accounts, as authorized in writing, per our fee schedule outlined in Item 5.B. At that time, the invoiced amount is provided to the client and the qualified custodian of clients' funds and assets. In addition, the custodian sends statements at least quarterly to all clients showing all disbursements from their account(s), including the amount of any fees.

## **16. Investment Discretion**

See Item 4.E regarding our discretionary authority. Clients may request a cash position to be left uninvested which, depending on the amount, can affect account performance. Our Investment Management Agreement and the Limited Power of Attorney on brokerage applications authorize our discretionary authority. These documents are executed prior to assuming authority or making any investment transactions on behalf of our clients.

## **17. Voting Client Securities**

- A. Clients must provide us with written authorization to vote their securities. The authorization preference is provided during the brokerage application process if desired and can be changed at any time in writing. The majority of our clients prefers to have all investment-related materials directed to us for voting their securities and do not inquire about how they are voted. Before voting a proxy, we read applicable material provided by the issuer including SEC submissions, proxy material, Board member biographies, financial statements and other such materials as are relevant to an informed voting decision. Clients may contact us by phone or email to inquire about how we voted their securities. A copy of our proxy voting policies and procedures is available on request.
- B. Clients who choose not to grant us voting authority will vote securities themselves. They will receive proxies and related materials directly from the custodian or transfer agent. Clients may contact us by phone or email with questions on voting proxies or any other investment issues.

## **18. Financial Information**

- A. We do not require pre-payment of adviser fees six months or more in advance.
- B. There are no financial conditions present that would impair our ability to meet the contractual commitments we have made to our clients.
- C. We have not been subject to any bankruptcy petitions.

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

We are federally registered with the Securities and Exchange Commission (SEC).

# Investment Advisor Brochure Supplement

## (Form ADV Part 2B)

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### 1. Cover Page

Additional information about James C. Pursley is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



**James C. Pursley**

Investment Adviser Representative  
President and Chief Investment Officer  
Gaia Capital Management, Inc.

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Dated 3/29/16

This brochure supplement provides information about James C. Pursley that supplements the Gaia Capital Management, Inc. brochure. You should have received a copy of that brochure. Please contact Vivian J. Lopez at Gaia Capital Management, Inc. if you did not receive it or if you have any questions about the contents of this supplement.



## 2. Educational Background and Business Experience

**James C. Pursley** was born in 1942 and resides with his wife and three children in Caldas Novas, Brazil. He has been the President and Chief Investment Officer of Gaia Capital Management, Inc. since its incorporation in 1991. He founded the company as a sole proprietorship in 1985. Mr. Pursley started his career as an adviser with Mutual Service Corporation. He held the Certified Financial Planner (CFP) designation from 1985-1996 and passed the Series 7 and Series 63 regulatory examinations to obtain his securities license. The CFP designation is awarded to those who study personal finance concepts such as insurance, retirement planning, investments and estate planning and who pass a rigorous examination.

Mr. Pursley's formal education includes:

- Bachelor of Arts Degree in International Relations from San Francisco State University in 1968
- Master of Library Science Degree from University of California, Berkley in 1970
- Advanced study at the University of Massachusetts, Amherst

## 3. Disciplinary Information

There are no legal or disciplinary events to report for James C. Pursley so this does not apply.

## 4. Other Business Activities

- A. Other investment-related business activities do not apply.
- B. Other business or occupation actively engaged in does not apply.

## 5. Additional Compensation

Other economic benefit for providing advisory services does not apply.

## 6. Supervision

As the principal and Chief Investment Officer of Gaia Capital Management, Inc., James Pursley is responsible for supervising all other investment adviser representatives in the company. He is under the supervision of the Oregon Department of Consumer & Business Services, Division of Finance and Corporate Securities located at 350 Winter St. NE, Rm. 410, Salem, OR 97301-3881. Phone: 866-814-9710 toll-free (within Oregon only); 503-378-4140 or 503-378-4387.

## 7. Requirements for State-Registered Advisers

- A. Disclosure of liability in arbitration claim does not apply.
- B. Disclosure of bankruptcy does not apply.

# Investment Advisor Brochure Supplement

## (Part 2B of Form ADV)

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### 1. Cover Page

Additional information about Vivian J. Lopez is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



**Vivian J. Lopez**

Investment Adviser Representative  
Operations Manager  
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Dated 3/23/16

This brochure supplement provides information about Vivian J. Lopez that supplements the Gaia Capital Management, Inc. brochure. You should have received a copy of that brochure. Please contact Vivian J. Lopez if you did not receive a brochure for Gaia Capital Management, Inc. or if you have any questions about the contents of this supplement.

## 2. Educational Background and Business Experience

**Vivian J. Lopez** has been with Gaia Capital Management, Inc. since 1995. Now the Operations Manager, she is responsible for client communications, account reconciliation and reporting, all office operations and execution of trades, which she does from her home in Forest Grove, Oregon. Born in 1963, her formal education includes the following degrees:

- Oregon Institute of Technology, Bachelor of Science in Management Information Systems, 2008
- Portland Community College, Associate of Science in Computer Information Systems, 2006
- San Diego Community College, Associate of Science in Business Administration, 1995

While working as an agent for Berkshire Life Insurance Company in 1994, Mrs. Lopez became qualified to sell investments by passing the Series 7 and Series 63 licensing exams. She became an investment advisor representative for Gaia Capital Management, Inc. after passing the Series 65 exam in March 2010.

## 3. Disciplinary Information

There are no legal or disciplinary events to report so this does not apply.

## 4. Other Business Activities

- A. Other investment-related business activities do not apply.
- B. Mrs. Lopez is currently 50% owner of Divine Drywall Incorporated, a general contractor in Forest Grove, Oregon. While this business does not provide her with a substantial amount of income, it does take up about 10% of her time on a weekly basis. Her duties are purely administrative and do not present any conflict with business operations or serving the clients of Gaia Capital Management, Inc.

## 5. Additional Compensation

Other economic benefit for providing advisory services does not apply.

## 6. Supervision

During the fifteen years with Gaia and in prior employment, Mrs. Lopez has earned the respect of employees and supervisors through efficient, effective and ethical performance of her duties. Her experience has earned her a high degree of independence from routine supervision.

James C. Pursley, President and Chief Investment Officer of Gaia Capital Management, Inc. is responsible for supervising Mrs. Lopez's activities. Supervision consists of paying close attention to the large volume of written communication between them, occasional verification of company financials, communicating with clients about their contact with her and examination of the quality of the work she does in trading execution and account reporting. Mr. Pursley can be reached by email at [jim.pursley@gaiacapital.com](mailto:jim.pursley@gaiacapital.com) or by phone in his Brazil office at 011-55-64-3453-7277.

## 7. Requirements for State-Registered Advisers

- A. Disclosure of liability in arbitration claim does not apply.
- B. Disclosure of bankruptcy does not apply.