



## **1st Portfolio, Inc.**

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### **FORM ADV PART 2A BROCHURE**

This brochure provides information about the qualifications and business practices of 1st Portfolio, Inc.. If you have any questions about the contents of this brochure, contact us at 703-564-9109. 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 1st Portfolio, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

1st Portfolio, Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since our last annual updating amendment dated March 27, 2013 there have been no material changes.

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## Item 4 Advisory Business

### OUR COMPANY

1st Portfolio Inc was founded in 2005, and became a wholly owned subsidiary of 1st Portfolio Holding Corporation, a diversified financial services company, in April 2009. 1st Portfolio Holding Corporation is a privately held company with fewer than 100 shareholders, none of whom individually own more than 25% of the company. Michael Rebibo is President and CEO of 1st Portfolio Holding Corp. as well as President and CEO of 1st Portfolio, Inc. Jacques Rebibo is Chairman of the Board of 1st Portfolio Holding Corp. and Jonathan Holtaway is the Secretary and Treasurer of 1st Portfolio Holding Corp.

As used in this brochure, the words "we", "our" and "us" refer to 1st Portfolio, Inc. and the words "you", "your" and "client" refer to you as a client or prospective client of our firm. Also, you may see the term investment adviser representative throughout this brochure. Our investment adviser representatives are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

We provide investment management services and financial planning services to individuals, affluent families, corporate executives, business owners, corporations, partnerships, trusts, and endowments. Additionally, we provide business consulting and pension plan consulting services, including but not limited to, pension plans, profit sharing plans, and 401k plans to small and medium size corporations.

### OUR SERVICES

We provide the following services or consulting advice to clients:

- Investment Management Services
- Financial Planning Services
- Pension Consulting Services
- Third Party Manager Consulting Services
- Family Office Services
- Brokerage & Insurance Services

We have selected Charles Schwab & Co's unit, Schwab Institutional ("Schwab") and Pershing Advisor Solutions, a unit of the BNY Mellon ("Pershing"), as our custodians. In their capacity as clearing firm and custodian, they provide a number of services to us and our clients, including but not limited to: 1) executing securities transactions, 2) purchasing many no-load mutual funds without transaction charges, 3) purchasing other no-load and load waived funds at nominal transaction charges, 4) taking custody of client assets, 5) deducting our investment management fee from client accounts and 6) providing us with research on securities, investment products, market information and/or other services, which assists us in our investment decision-making process for our clients. Please refer to the discussion under *Brokerage Practices* for more information.

### INVESTMENT MANAGEMENT SERVICES

We provide investment advisory services commonly known as "investment management" and/or "portfolio management" services for our clients. In our capacity as investment managers, we analyze investments, determine portfolio composition and asset allocation decisions for clients, in addition to providing ongoing portfolio management, maintenance, review and reporting of client portfolios.

We construct your portfolio in a manner consistent with your specific needs, including but not limited to your goals, objectives, income needs, age, time horizon and tolerance for risk. We explore these factors in detail with you during client interviews and by reviewing data you provide to us in a confidential data-gathering questionnaire.

We offer advice on the following securities and investments:

Exchange Listed Securities, Over-the-Counter Securities, Foreign Issued Securities, Corporate Debt Securities, Commercial Paper, Certificates of Deposit, Municipal Securities, Corporate Bonds, Preferred Securities, Government & Agency Securities, Mutual Fund Shares, Partnership Interests, Variable Insurance Products, Real Estate & R.E.I.T's, and Corporate Options.

### **FINANCIAL PLANNING SERVICES**

We provide comprehensive financial planning services for you, including but not limited to the coordination and planning of the following:

- Investments
- Retirement
- Education
- Estate
- Cash Flow
- Risk Management

We generally provide these services in the context of developing a comprehensive financial plan ("Plan") for you and/or by providing planning advice on a specific financial planning issue(s). For example, in lieu of developing a Plan, you may need advice or consultation in a specific area such as retirement planning or education planning.

### **PENSION CONSULTING SERVICES**

We act as a pension plan consultant for corporate retirement plans on either a discretionary or non-discretionary basis, depending upon the needs of the plan sponsor and plan participants. We assist plan sponsors with plan design, establishing investment objectives, setting investment parameters, selecting specific investment vehicles, ongoing monitoring, reporting, and controlling and/or reducing plan expenses where feasible.

We will advise plan sponsors, communicate client instructions to the plan administrator and provide education to plan participants as requested by the client.

### **FAMILY OFFICE SERVICE**

We provide a suite of family office services designed to meet the unique needs of high net worth investors and affluent families. These services are comprehensive and ongoing in nature, and entail a level of involvement that exceeds traditional investment management and financial planning services.

In this capacity, we provide the following services:

- Coordination
- Financial Planning
- Investment Management
- Supervision & Administration

In providing these services, we serve as the primary advisor to you, by coordinating and synthesizing the advice and consultation of other advisors, including but not limited to legal advisors, tax advisors, and insurance advisors. The purpose of coordinating the advice of outside advisors on your behalf, is to ensure, wherever possible, that various components of your financially related matters (tax, legal, estate, investments, risk-management) work together to achieve your overall financial goals, not solely the objective of the advisor who may have a singular focus. While we will work with and coordinate with your other advisors, we do not provide tax or legal advice to you.

### **THIRD PARTY INVESTMENT MANAGER CONSULTING SERVICES**

Previously, we have recommended that some clients invest some or all of their investment assets with a third party investment manager. We still have certain legacy assets with third party managers, however this program is no longer open to new clients.

### **TAILORED INVESTMENT SERVICES**

We carefully consider your unique investment and financial planning needs. We explore in detail the goals, objectives, income needs, age, time horizon and tolerance for risk, in creating investment planning recommendations unique to your needs and circumstances. We determine the most suitable allocation among multiple asset classes including but not limited to stocks, bonds, cash, real estate investment trusts, natural resources, commodities, currencies, precious metals and "alternative" investments.

We consider "alternatives" as investments that generally have low "correlation" to the broader financial markets and/or as strategies generally expected to generate "absolute" returns. The term correlation indicates the extent to which two or more asset classes move up or down together, while absolute return differs from relative return, as it is concerned with the return of a particular asset, not its performance relative to another measure or benchmark.

Alternatives include, but are not limited to, short-selling, long-short, market neutral, initial public offerings, mergers & acquisitions, global macroeconomic opportunities, interest rate arbitrage, convertible debt securities, investing in futures, options, derivatives, the use of leverage and/or other unconventional illiquid investments such as private equity investments and venture capital.

We believe that alternative strategies may improve portfolio returns, provide important diversification benefits not provided by traditional asset classes such as stocks, bonds and cash, and lower portfolio volatility over a full market cycle. However, there can be no assurances that investments in alternative strategies will achieve any of the expected results at the portfolio level. There may be times, such as 2008, that a broadly diversified portfolio declines more in value than expected.

Additionally, alternative strategies carry or exhibit risks generally not associated with traditional asset classes. These risks include but are not limited to: 1) increased volatility, 2) reduced liquidity, 3) marketability, 4) transparency, and 5) fund closures, which prohibit the ability to make additional contributions.

### **INVESTMENT RESTRICTIONS**

You may request restrictions on our ability to invest your assets in securities or investment products of any type. For example, you may request or instruct us to avoid securities **not** considered "socially responsible" or you may instruct us to avoid investing in any non-diversified security, such as an individual stock or bond.

### **WRAP FEE PROGRAMS**

We are a sponsor of a wrap fee program, which is a type of investment program that provides clients with access to several money managers or mutual fund asset allocation models for a single fee that includes administrative fees, management fees, and commissions. If you participate in our wrap fee program, you will pay our firm a single fee, which includes our money management fees, certain transaction costs, and custodial and administrative costs. We receive a portion of the wrap fee for our services. The overall cost you will incur if you participate in our wrap fee program may be higher or lower than you might incur by separately purchasing the types of securities available in the program.

Transactions for your account must be executed by one of our custodians. To compare the cost of the wrap fee program with non-wrap fee portfolio management services, you should consider the frequency of trading activity associated with our investment strategies and the brokerage commissions charged by our custodians or other broker-dealers, and the advisory fees charged by investment advisers. For more information concerning the Wrap Fee Program, please see *Appendix 1* to this Brochure.

## **TYPES OF INVESTMENTS**

We generally invest client assets in diversified investment vehicles such as mutual funds, closed-end funds, real estate investment trusts and exchange traded funds. Additionally, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing.

We manage wrap fee and non-wrap fee accounts based on the individual needs of each client and therefore we do not manage the accounts differently based on whether it's a wrap or non-wrap account.

If you participate in our wrap fee program, we will provide you with a separate Wrap Fee Program Brochure explaining the program and costs associated with the program.

## **ASSETS UNDER MANAGEMENT**

As of December 31, 2013, we managed assets totaling \$152,662,056. Of that amount, \$125,683,892 is managed on a discretionary basis and \$26,978,164 is managed on a non-discretionary basis.

## **Item 5 Fees and Compensation**

### **INVESTMENT MANAGEMENT SERVICES**

A detailed description of the investment management services we provide to clients on a discretionary basis, as well as the scope, terms and conditions of the engagement, are covered under our Investment Advisory Agreement, which you sign prior to our performing the contracted services.

We provide investment management services for a fee, expressed as a percentage of the net market value of the assets under management. The fee is "blended" such that a lower fee is applied as the assets under management increase. The fee is generally based on the following schedule:

<b>Assets Under Management</b>	<b>Annual Fee</b>
From \$0 to \$1,000,000	1.25%
\$1,000,001 to \$2,000,000	1.00%
\$2,000,001 to \$3,000,000	0.85%
\$3,000,001 to \$5,000,000	0.75%
\$5,000,001 to \$10,000,000	0.65%
\$10,000,001 and up	0.60%

We may charge a lesser management fee under certain circumstances. We may lower our investment management fee including but not limited to circumstances when: 1) we provide financial planning services for an additional fee in conjunction with investment management services, 2) we anticipate managing additional assets for you, 3) in consideration of your expected earning power, related accounts for family members of existing clients, account composition, and 4) negotiations with you.

#### **FEE DEDUCTIONS FROM CLIENT ACCOUNTS**

Our custodian deducts our investment management fees from your account quarterly, in arrears, and based on the net market value of the account on the last day of the prior calendar quarter. You authorize this arrangement with us, as prescribed in the written Investment Advisory Agreement. For partial quarters, the fee is calculated on a pro-rata basis. Additionally, we prorate our fee to account for client deposits and/or withdrawals during the quarter.

Your custodial statement reflects the date and amount of the fee deducted from your account. You should carefully review the statements for discrepancies. You should immediately report any discrepancies to us.

The following example illustrates how we calculate a "blended" fee for a \$1.2 million account under management. The period illustrated, is a full calendar quarter (generally 90 days):

Account Value on Last Day of Prior Quarter \$1,200,000

Blended Calculation  $\$0 - \$1,00,000 \times 0.3125\% (1.25\%/4) = \$3,125$

$\$1,00,001 - \$1,200,000 \times 0.2500\% (1.00\%/4) = \$500$

Fee Paid to 1st Portfolio  $\$3,125 + \$500 = \$3,625$

#### **FINANCIAL PLANNING SERVICES**

A detailed description and scope of financial planning services we provide to you, as well as the scope, terms and conditions of the engagement are covered under the Financial Planning Agreement, which you sign prior to our performing the contracted services.

We charge a fee (fixed and/or hourly) for our financial planning services. When creating a comprehensive financial plan ("Plan"), the fee to create a Plan is based on your needs and circumstances, and is negotiable, but generally ranges from \$5,000 to \$12,000. In circumstances where your needs are not entirely comprehensive in nature, we provide financial planning advice or consultation on an hourly basis, in lieu of providing a Plan. The fixed fee or hourly rate charged depends upon the level and scope of the services needed, and the time involved to meet your requirements. We bill at an hourly rate of \$150.00-\$350.00 per hour, as described in our Financial Planning Agreement.

In performing our services, we are not required to verify any information received from you or any information provided to us on your behalf. You should promptly notify us if there is a material change in your financial situation and/or your investment objectives, as they may affect our analysis and recommendations.

Unless otherwise agreed to in writing, one-half of the financial planning services fee is payable along with an executed Financial Planning Agreement before we begin work on the Plan or providing financial planning advice or consultation. The balance due is payable upon delivery of the Plan. In the event you terminate the agreement before we deliver the Plan, or provide financial planning advice or consultation rendered under the agreement, we will refund the balance of any unearned fee that you paid in advance. We do not deduct these fees directly from your account unless you have also



engaged us for portfolio management and then only with your authorization as provided pursuant to the terms of the portfolio management agreement. We will not require prepayment of a fee more than six months in advance and in excess of \$500.

### **PENSION CONSULTING SERVICES**

A detailed description and scope of the retirement plan consulting services we provide you, as well as the terms and conditions, under which we provide services, are covered under the Pension Plan Consulting Services Agreement, which you will sign prior to our performing services.

We provide pension and retirement plan consulting services for a fee, expressed as a percentage of the market value of the assets in the plan. The actual fee charged will vary from one billing period to the next, as the market value of the assets in the plan change. The fee charged is generally consistent with the fee schedule set forth for Investment Management Services above and under Fees and Compensation. The custodian deducts our pension plan consulting fees from your account quarterly, in arrears, and based on the net market value of the account on the last day of the prior calendar quarter. You authorize this arrangement with us, as prescribed in the written Pension Plan Consulting Agreement. For partial quarters, the fee is calculated on a pro-rata basis. Additionally, we prorate our fee to account for client deposits and/or withdrawals during the quarter.

You receive an invoice summary with your quarterly report indicating that the custodian has deducted the quarterly fee from your account. Additionally, your custodial statement also reflects the date and amount of the fee deducted from your account. You should carefully review our statements and compare them to the statements generated by the custodian for discrepancies. You should immediately report any discrepancies to us.

### **GENERAL - ADVISORY SERVICES TO RETIREMENT PLANS AND PLAN PARTICIPANTS**

As disclosed above, we offer various levels of advisory and consulting services to employee benefit plans ("Plan") and to the participants of such plans ("Participants"). The services are designed to assist plan sponsors in meeting their management and fiduciary obligations to Participants under the Employee Retirement Income Securities Act ("ERISA"). Pursuant to adopted regulations of the U.S. Department of Labor, we are required to provide the Plan's responsible plan fiduciary (the person who has the authority to engage us as an investment adviser to the Plan) with a written statement of the services we provide to the Plan, the compensation we receive for providing those services, and our status (which is described below).

The services we provide to your Plan are described above, and in the service agreement that you have previously signed. Our compensation for these services is described above and also in the service agreement. We do not reasonably expect to receive any other compensation, direct or indirect, for the services we provide to the Plan or Participants, unless the plan sponsor directs us to deduct our fee from the plan or directs the plan record-keeper to issue payment for our fee out of the plan. If we receive any other compensation for such services, we will (i) offset the compensation against our stated fees, and (ii) we will promptly disclose the amount of such compensation, the services rendered for such compensation and the payer of such compensation to you.

### **STATUS**

In providing services to the Plan and Participants, our status is that of an investment adviser registered under the investment advisers act of 1940, and we are not subject to any disqualifications under Section 411 of ERISA. In performing fiduciary services, we are acting either as a non-discretionary fiduciary of the Plan as defined in Section 3(21) under ERISA, or as a discretionary fiduciary of the plan as defined in Section 3(38) under ERISA.

## **FAMILY OFFICE SERVICES**

A detailed description and scope of the family office services we provide you, as well as the terms and conditions under which we provide services, are covered under the Family Office Agreement, which you will sign prior to our performing services.

We provide family office services for a fee, under an annual retainer agreement. The fee is expressed as a percentage of the net market value of the assets under management at the start of the agreement and/or your net worth, depending on the complexity of your financial affairs and the scope of the services needed to meet your needs. The terms of the agreement and services we provide under the agreement are reviewed annually.

The fee is "blended" such that a lower fee is applied as the assets under management increase. Our negotiable fee is based on the following schedule:

<b>Assets Under Advisement</b>	<b>Annual Fee</b>
First \$10,000,000	0.40%
Next \$20,000,000	0.30%
Next \$20,000,000	0.25%
Amounts over the initial \$50,000,000	0.25%

In performing our services, we are not required to verify any information received from you or any information provided to us on your behalf. You should promptly notify us if there is a material change in your financial situation and/or investment objectives that may affect our analysis and recommendations. In the event you terminate the Family Office Agreement prior to its anniversary date, we will refund the balance of any unearned fee to you.

The custodian deducts our fees from your account quarterly, in arrears, and based on the net market value of the account on the last day of the prior calendar quarter. You authorize this arrangement with us, as prescribed in the written Family Office Services Agreement. For partial quarters, the fee is calculated on a pro-rata basis. Additionally, we prorate our fee to account for client deposits and/or withdrawals during the quarter.

You receive an invoice summary with your quarterly report indicating that the custodian has deducted the quarterly fee from your account. Additionally, your custodial statement also reflects the date and amount of the fee deducted from your account. You should carefully review our statements and compare them to the statements generated by the custodian for discrepancies. You should immediately report any discrepancies to us.

## **THIRD PARTY INVESTMENT MANAGEMENT**

As described under Advisory Business, we have certain limited legacy assets of clients whom we recommended to invest with a third party investment manager. Under these circumstances we receive a solicitor's referral fee in conjunction with the investment management services provided by the third party manager. Our solicitor referral fee is in addition to the investment management fee those clients pay to the third party investment manager. The solicitor referral schedule is negotiable but generally ranges from 0.25% to 1.5%, based on the net market value of the assets managed by the third party manager. Certain third party managers may impose a referral fee schedule that differs from our referral fee schedule. We are phasing out this program and it is not currently open to new clients. Those clients currently in the program have received the third party investment manager's disclosure brochure prior to their executing an agreement with the manager and will receive any required updates. Unless otherwise noted, the third party manager deducts investment management fees and

solicitor referral fees directly from client accounts at the custodian, in advance, and on a quarterly basis, and then remits a portion of the fee to us. Investment management fees and solicitor referral fees are collected and reimbursed to on a pro-rata basis, at the start and termination of the client agreement.

#### **ANCILLARY FEES AND EXPENSES**

As described under *Brokerage Practices*, our custodian may charge transaction fees (also referred to as commissions) to affect the purchase of securities including but not limited to individual stocks, bonds, no-load mutual funds, closed-end funds, exchange traded funds, and real estate investment trusts. Neither we, nor any of our employees will receive any portion of the transaction fees charged by our custodian. Please see the discussion set forth under *Brokerage Practices* for more information.

#### **PRE-PAYMENT OF FEES**

We deduct investment management fees earned, from your account(s), in arrears based on the account value of last day of the prior calendar quarter, and on a pro-rata basis. As described under our Investment Advisory Agreement, we do not require prepayment of investment management fees.

As described under *Advisory Business*, the third party managers we recommend, bill clients in advance, unless otherwise indicated. Investment management fees and solicitor referral fees are collected from you and reimbursed to you, on a pro-rata basis, at the start and termination of the client agreement.

As described under *Fees & Compensation*, when providing Financial Planning services, Family Office services, or Retirement Plan Consulting Services, unless otherwise agreed to in writing, one-half of the planning or consulting fee is payable along with an executed agreement before we begin providing contracted services. The balance of the fee is payable upon delivery of the plan. If you terminate the agreement before we have provided the contracted services, we will refund the balance of any unearned fee to you.

#### **COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS**

1st Portfolio's investment adviser representative, W. Kirk Taylor, is affiliated with Capitol Securities Management, Inc., an SEC registered, and FINRA member, broker-dealer. Mr. Taylor, in his individual capacity as a Registered Representative of Capitol Securities Management, Inc., may offer and effect securities brokerage transactions on a fully disclosed commission basis. At present however, Mr. Taylor does not offer or effect securities brokerage transactions and only maintains his licensure for legacy business. In addition, Mr. Taylor is a licensed independent insurance agent. As with his Registered Representative's license, Mr. Taylor does not, at present, offer or sell insurance products and only maintains his licensure for legacy business. Nevertheless, because Mr. Taylor continues to maintain those licenses, if he were to effect securities brokerage transactions or sell insurance products, he would be entitled to receive commissions thereon which would be separate and in addition to our advisory fees. This practice would, consequently, present a conflict of interest because, as a Registered Representative and an independent insurance agent, Mr. Taylor would have an incentive to effect securities brokerage transactions and/or recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. You are under no obligation, contractually or otherwise, to place securities brokerage trades or purchase insurance products through any person affiliated with our firm.

#### **BROKER-DEALER OPTIONS**

You have the option to purchase securities or effect investment recommendations through any broker or agent you choose. You are not required to purchase securities or effect investment recommendations through our investment adviser representative.

## **FINANCIAL PLANNING FEE OFFSET**

Under certain circumstances, we may provide (or may be presently providing) ongoing investment management services and separately generate a comprehensive financial plan ("Plan") and/or provide you with financial planning services for a fixed fee or at our hourly rate. In such circumstances, we may receive a planning fee in addition to our investment management fee.

We consider creating a comprehensive financial plan and/or providing specific planning advice to you as separate from the investment management services we provide. For example, creating a comprehensive financial plan or assisting you with a retirement planning analysis, entails research, knowledge, coordination and implementation skills that are wholly-different from the services provided as an investment manager.

As such, we believe we are entitled to charge you both an investment management fee and a fee for financial planning services when providing both services, so long as they do not effectively overlap or require the same skill set as an investment advisor. Consequently, we generally do not reduce our investment management fee to offset financial planning fees you pay for the creation of a comprehensive plan and/or for providing financial planning services; however, we may do so at our discretion.

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

We do not provide investment management services for a performance fee.

## **Item 7 Types of Clients**

### **OUR CLIENTS**

We provide investment management services and financial planning services to individuals, affluent families, corporate executives, business owners, trusts, and estates. Additionally, we provide business consulting and retirement plan consulting services, including but not limited to, pension plans, profit sharing plans and 401k plans to small and medium size corporations.

### **MINIMUM ACCOUNT SIZE**

As described under Advisory Business, we require a minimum account size of \$1,000,000 to open and maintain an advisory account. We may waive the minimum account size requirement under certain circumstances: 1) when we provide financial planning services for an additional fee in conjunction with investment management services, 2) when we anticipate managing additional assets for you, 3) in consideration of the your expected earning power, related accounts for family members of existing clients, account composition, and 4) negotiations with you.

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

### **INVESTMENT STRATEGIES**

Before making recommendations to you, we carefully explore your goals, objectives, income needs, age, time horizon and tolerance for risk, and other meaningful data specific to you to determine the most suitable allocation among various asset classes including. The investments held in our portfolios include but are not limited to stocks, bonds, cash, real estate investment trusts, natural resources and commodities. These assets generally exhibit low correlation to one another over long periods of time, thereby providing important diversification characteristics within client portfolios. The term correlation indicates the extent to which two or more asset classes move up or down together.

To provide additional diversification, we generally invest client assets in diversified investment vehicles such as mutual funds, closed-end funds, real estate investment trusts and exchange traded funds. Based on the personal factors described above that are unique to you, we will generally recommend that you invest in one of our five portfolios designed to achieve one of the objectives described below. In certain circumstances or as dictated by you, you may invest in a variation of one of the below described portfolios, a modified asset allocation or in a portfolio with a limited number of investments or asset classes.

The five portfolios are as follows:

- Growth
- Moderate Growth
- Balanced
- Moderately Conservative
- Conservative
- Income & Growth

**INVESTMENT OBJECTIVES** - The following generally describes the investment objective of the portfolio:

- **Growth** - this portfolio seeks to maximize capital appreciation. It is not concerned with current income.
- **Moderate Growth** - this portfolio seeks capital appreciation. It is not concerned with current income.
- **Balanced** - this portfolio seeks to provide moderate capital appreciation and limited current income with a secondary goal of capital preservation.
- **Moderately Conservative** - this portfolio seeks to provide limited capital appreciation and moderate current income with a secondary goal of capital preservation.
- **Income & Growth** - this portfolio seeks to maximize current income and generate limited capital appreciation.

**INVESTOR PROFILE** - The following generally describes the individual investor profile for the portfolio:

- **Growth** - You desire maximum capital appreciation. You are not concerned with the level of fluctuation in your portfolio.
- **Moderate Growth** - You desire capital appreciation. You are less concerned with the level of fluctuation in your portfolio.
- **Balanced** - You desire moderate capital appreciation. You are moderately concerned with the level of fluctuation in your portfolio.
- **Moderately Conservative** - You desire limited capital appreciation. You are concerned with the level of fluctuation in your portfolio.
- **Income & Growth** - You desire current income and limited capital appreciation, with a secondary goal of preservation of capital.

Our portfolios are based on Modern Portfolio Theory, which was pioneered by Harry Markowitz in his paper "Portfolio Selection," published in the *Journal of Finance*. Modern Portfolio Theory is a theory of investing which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets.

Modern Portfolio Theory is a mathematical formulation describing the concept of diversification by creating portfolios that together have collectively lower risk than any individual asset within the portfolio. The risk, return, and correlation measures used by Modern Portfolio Theory are mathematical statements about the future. In practice investors must substitute historical measurements of asset return and volatility with forward looking forecasts in the equation, as looking forecasts attempt to account for new circumstances or data which did not exist when the theory was originally created.

## **METHODS OF ANALYSIS**

We use the following methods of analysis to optimize monitor client portfolios:

- Fundamental
- Technical

We construct client portfolios in a manner consistent with client specific issues, including but not limited to your goals, objectives, income needs, age, time horizon and tolerance for risk. We explore these factors in detail with you during client interviews and by reviewing data you provide to us in a confidential data-gathering questionnaire.

We primarily use *fundamental analysis* in conjunction with Modern Portfolio Theory to optimize client portfolios. Fundamental analysis considers global macroeconomic indicators such as GDP growth rates, corporate profits, corporate productivity, industrial capacity utilization, consumer prices and inflation, interest rates, unemployment, currency exchange rates and geopolitical risk factors. Additionally, fundamental analysis considers where the economy is in the context of the business economic cycle to determine the extent to which a portfolio should overweight or underweight certain asset classes. For example, at the peak of an economic cycle, emphasis may be placed on fixed income investments in lieu of equity investments and/or less economically sensitive sectors such as consumer staples or conservative fixed income securities such as US treasuries.

To a lesser extent, we use *technical analysis* to assist in the timing of funding or rebalancing client portfolios. Technical analysis considers the predictive nature of recognizable price patterns and trends, as well as psychological indicators that measure individual investor sentiment. Extreme readings in investor sentiment are believed to be contrarian, in that individual investors typically exhibit extreme levels of optimism at or near market tops and conversely, they exhibit extreme levels of pessimism at or near market bottoms. Properly identifying extremes in investor sentiment may be useful in determining the timing of funding or rebalancing of client portfolios.

## **A WORD ABOUT RISK**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.



## **MATERIAL RISKS TO OUR ANALYSIS**

Both methods of analysis (fundamental and technical) as well as other investment strategies we use are subjective, and open to both interpretation and errors in judgment on our part. Additionally, investment analysis consider numerous factors that are complex, interrelated, and often affected by unpredictable factors including but not limited to macro and micro economic factors, and geopolitical risks.

Although we believe combining traditional and non-traditional asset classes and investment strategies together within a client portfolio, optimizes the client's trade-off between risk and return, there can be no assurances that doing so will achieve the expected outcome. There may be times, such as 2008, that a broadly diversified portfolio declines more in value than expected.

## **RISKS SPECIFIC TO CERTAIN SECURITIES**

We recommend or invest client assets in a wide range of securities that exhibit various risks, as previously described, but we primarily invest in open-ended mutual funds and exchange traded funds.

Mutual funds and exchange traded funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities.

Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no load" and charge no fee to buy into, or sell out of the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end". So-called "open end" mutual funds continue to allow in new investors indefinitely which can dilute other investors' interests.

Clients can learn more about the advantages and disadvantages of mutual funds, exchange traded funds and other securities by visiting the Securities & Exchange website  
<http://www.sec.gov/investor/pubs/inwsmf.htm>

## **Item 9 Disciplinary Information**

### **REGULATORY DISCIPLINARY ACTIONS**

1st Portfolio as a firm, nor any of its management personnel, has any reportable disciplinary actions or matters to disclose, prior to, or concurrent to the date this document was filed with requisite regulator(s).

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

### **REGISTERED PERSONNEL**

1st Portfolio's Principal, Executive Vice President, and Investment Advisor Representative, W. Kirk Taylor, CFP® is a Registered Representative of Capitol Securities Management, Inc.

## **RELATIONSHIPS THAT PRESENT A CONFLICT OF INTEREST**

1st Portfolio's investment adviser representative, W. Kirk Taylor, is affiliated with Capitol Securities Management, Inc., an SEC registered, and FINRA member, broker-dealer. Mr. Taylor, in his individual capacity as a Registered Representative of Capitol Securities Management, Inc., may offer and effect securities brokerage transactions on a fully disclosed commission basis. At present however, Mr. Taylor does not offer or effect securities brokerage transactions and only maintains his licensure for legacy business. In addition, Mr. Taylor is a licensed independent insurance agent. As with his Registered Representative's license, Mr. Taylor does not, at present, offer or sell insurance products and only maintains his licensure for legacy business. Nevertheless, because Mr. Taylor continues to maintain those licenses, if he were to effect securities brokerage transactions or sell insurance products, he would be entitled to receive commissions thereon which would be separate and in addition to our advisory fees. This practice would, consequently, present a conflict of interest because, as a Registered Representative and an independent insurance agent, Mr. Taylor would have an incentive to effect securities brokerage transactions and/or recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. You are under no obligation, contractually or otherwise, to place securities brokerage trades or purchase insurance products through any person affiliated with our firm.

1st Portfolio Holding Corporation owns 10% of Ategra Capital Management, LLC, the investment manager of Ategra Community Financial Institutional Fund, LP ("the Fund"). 1st Portfolio may actively solicit investment management clients to invest in the Fund if such clients meet the necessary regulatory requirements for accredited investors. Certain clients of our firm may have previously invested in the Fund prior to becoming an advisory client. Investing in the Fund involves a significant degree of risk. All relevant information, terms and conditions relative to the Ategra fund including the compensation to be received by the Manager, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Offering Memorandum, Agreement of Limited Partnership, and Subscription Agreement, which each subscriber is required to receive and/or execute prior to being accepted as a member of the Fund.

Mr. Rebibo is also an employee of 1st Portfolio Lending Corporation, a mortgage Lender that is affiliated with 1st Portfolio through common ownership. Our parent company, 1st Portfolio Holding Corporation, is the sole shareholder of 1st Portfolio Lending Corporation. Certain employees of 1st Portfolio including Mr. Rebibo may provide mortgage lending services to clients of 1st Portfolio Inc. In the event that a client chooses to purchase any mortgage products or mortgage lending services from 1st Portfolio Lending Corporation, 1st Portfolio Lending Corporation will earn fees for the services provided. The rates and fees charged may be higher or lower than those charged by other mortgage lenders/brokers and no client is under any obligation to purchase any products 1st Portfolio Lending Corporation, for mortgage lending services. Mr. Rebibo, any of 1st Portfolio's principal(s) and investment adviser representative(s) and 1st Portfolio Holding Corporation, may have an economic interest in the provision of such services through 1st Portfolio Lending Corporation to 1st Portfolio's clients. This presents a conflict of interest for 1st Portfolio, and/or 1st Portfolio's principal(s) and investment adviser representative(s). Mr. Rebibo devotes approximately twenty five percent (25%) percent of his time to 1st Portfolio Lending Corporation.

Mr. Rebibo is a partner in Saffron Bistro, LLC, which does business under the name of Evo Bistro, in Mclean, VA. He devotes approximately two (2) hours per week to this position.



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

### **DESCRIPTION OF OUR CODE OF ETHICS**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for persons associated with our firm. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All persons associated with our firm are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

### **PERSONAL SECURITIES TRANSACTIONS**

From time to time, the same securities we recommend to clients or the securities held in client accounts may also be purchased or held in the personal investment accounts of 1st Portfolio employees. Generally speaking, the securities recommended or held in client portfolios are either open-end mutual funds or actively traded securities such as closed-end funds, exchange traded funds or real estate investment trusts with high levels of daily liquidity. As such, the prices of these securities would generally be influenced only by extremely large volume trades, which are atypical of the investments found in the personal investment accounts of firm employees.

When employees of 1st Portfolio invest in the same securities it recommends to clients or those same securities are held in client accounts, a conflict of interest exists, in that the employee may buy or sell those same securities in their personal accounts and receive execution prices that are better (lower or higher) than the client may have received. In order to mitigate this conflict, it is our policy that employees shall not have priority over client accounts.

Per the firm's established Policies & Procedures manual, investment adviser representatives employed by 1st Portfolio are required to provide the Chief Compliance Officer with a written record of the investment adviser representative's current securities holdings within 10 days after the person becomes an access person, as well as a written record of the investment adviser representative's current securities holdings at least once each 12-month period. Additionally, each investment adviser representative must provide the Chief Compliance Officer with a written record of the investment adviser representative's securities transactions no later than thirty (30) days after the end of each calendar quarter.

## **Item 12 Brokerage Practices**

### **EXECUTION OF BROKERAGE TRANSACTIONS**

Our custodians may charge transaction fees (also referred to as commissions) to affect the purchase of securities including but not limited to individual stocks, bonds, no-load mutual funds, closed-end funds, exchange traded funds, and real estate investment trusts.

The transaction fees charged by our custodians are in addition to our investment management fee, and other charges imposed at the mutual fund level (e.g., management fees and other fund expenses). Our custodians allow us to purchase many but not all no-load mutual funds without transaction charges, as well as other no-load and load waived funds at nominal transaction charges. Our custodians' transaction charges are generally considered discounted from customary retail transaction charges and commission rates, however the transaction fees charged by our custodians may be higher or lower than those charged by other custodians or broker-dealers.

Neither we nor any of our employees will receive any portion of the transaction fees charged to the client by our custodians.

Although the commissions you pay shall comply with our duty to obtain best execution, you may pay a commission that is higher than another custodian or broker-dealer might charge to effect the same transaction. In such situations, we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received and take into consideration the full range of the broker-dealers services, including the value of research provided, execution capability, commission rates, and responsiveness. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best overall qualitative execution.

If you request, we will arrange for the execution of securities brokerage transactions through a different broker-dealer that we reasonably believe will provide best execution. Transactions for each client account will usually be effected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may (but are not obligated to) aggregate such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently.

Aggregated transactions are averaged as to price and are allocated among our clients in proportion to the purchase and sale orders placed for each client account on any given day. To the extent that we determine to aggregate client orders for the purchase or sale of securities, including securities in which our principals or investment adviser representatives may invest, we shall do so in accordance with the parameters set forth by the SEC. We shall not receive any additional compensation or remuneration as a result of aggregating orders.

You may direct us to use a particular broker-dealer (subject to our right to decline and/or terminate the engagement) to execute some or all transactions for your account. In such circumstances, you will negotiate terms and arrangements for the account with your preferred broker-dealer, and we will not seek better execution services or prices from other broker-dealers or be able to aggregate your transactions for execution through other broker-dealers with orders for other accounts we manage. As a result, you may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

### **CONFLICTS OF INTEREST**

In the event that a broker-dealer refers investment management clients to the us, there exists a conflict of interest, in that clients may incur higher commission or transaction costs than would otherwise be the case, had the client effected account transactions through alternative clearing arrangements that may have been available our clients at the time.

### **RESEARCH AND OTHER SOFT DOLLAR BENEFITS**

We do not receive any soft dollar benefits from any broker-dealer or custodian.

## **BROKERAGE FOR REFERRALS**

Neither we, nor any of our investment adviser representatives, receive any referrals from any custodian.

## **BLOCK TRADING**

Whenever practical, we aggregate client's orders or execute block trades for client accounts. However, during the course of normal rebalancing, it is generally not practical for us to aggregate client orders or execute block trades for client accounts. As such, clients will generally pay higher commissions or transactions costs than would otherwise be the case if we aggregated client orders.

## **Item 13 Review of Accounts**

### **PERIODIC ACCOUNT REVIEW**

As a general matter, Michael J. Rebibo, CFP® President or W. Kirk Taylor, CFP®, Executive Vice President review client accounts, at least on a quarterly basis. Matters which are reviewed, include, but are not limited to, current market activity, macro or micro economic outlooks, review and analysis of individual securities or investment products, fund managers, portfolio composition, trading activity and performance comparisons. Our analysis of these factors may trigger rebalancing decisions we deem appropriate.

Clients retaining us for Financial Planning services only, would not receive reviews or ongoing reports. We recommend that clients review their financial goals and objectives on an annual basis. For financial planning clients, these services would be provided for under a new Engagement Agreement .

### **NON-PERIODIC ACCOUNT REVIEW**

Conditions which may trigger more frequent reviews may include but are not limited to, changes in a client's financial circumstances, business economic fluctuations, and/or global geopolitical events.

### **INFORMATION REPORTED TO CLIENTS**

We provide clients with written quarterly reports, reflecting the portfolio value, asset allocation, performance and a summary of investment management fees deducted from your account. Clients also receive reports from our custodian Schwab Institutional, on a monthly and/or quarterly basis. You should carefully review those statements in a timely manner for accuracy. Additionally, in situations where we recommend that you invest asset assets with another broker-dealer, variable annuity company, third party investment manager, or other financial institution, you will also receive reports from the respective custodian or financial institution, on a monthly and/or quarterly basis.

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

### **AFFILIATED SOLICITOR**

If a client is introduced to us by an affiliated solicitor, we may pay that solicitor a referral fee in compliance with the requirements under Rule 206(4)-3 of the Investment Advisers Act of 1940, as well as any corresponding state securities requirements. We will pay the referral fee solely from our investment management fee. Doing so shall not result in any additional charge to the client.

Under these circumstances, the solicitor shall disclose at the time of the solicitation the nature of the solicitor relationship. The affiliated solicitor shall provide each prospective client with a copy of our written disclosure brochure. Additionally, we will provide the client with a written disclosure statement, disclosing the terms of the solicitation arrangement between us and the affiliated solicitor, and the compensation to be received by the solicitor from us.

## Item 15 Custody

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy. If firm also sends client statements: We will also provide statements to you reflecting the amount of advisory fee deducted from your account.

You should compare our statements with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement, or if you did not receive a statement from your custodian, please contact us directly at the telephone number on the cover page of this brochure.

## Item 16 Investment Discretion

### INVESTMENT DISCRETION

We manage assets for clients on both a discretionary and non-discretionary basis. A detailed description of the investment management services we provide to clients on a discretionary basis, as well as the scope, terms and conditions of the engagement, are covered under our Investment Advisory Agreement .

As described in our Investment Advisory Agreement you authorize us to act on your behalf with respect to all investment decisions regarding your assets held at the custodian, including the ability to charge your account for our investment management fee, and remit such fee to us in compliance with SEC rules.

The discretion you give to us includes but is not limited to the ability to effect security transactions and otherwise take such actions as required by us to perform our obligations as described in our Investment Advisory Agreement.

### INVESTMENT RESTRICTIONS

You may request restrictions on investing in securities or investment products of any type. For example, you may instruct us to avoid securities not considered "socially responsible" or instruct us to avoid investing in any non-diversified security, such as an individual stock or bond.

## Item 17 Voting Client Securities

### PROXY VOTING POLICY

We do not vote client proxies on your behalf unless required to do so by ERISA law. While we provide investment management advice relative to client investment assets, you maintain exclusive responsibility for directing the manner in which you will receive and vote on proxies, and for making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other voted on by proxy.

We shall instruct each respective custodian to forward proxies and shareholder communications relating to your investment assets, directly to you. You may contact us with questions on how to execute proxy materials but we do not offer advice on whether you should vote for, or against, any proxy action or shareholder communication.

## **Item 18 Financial Information**

### **PAYMENT AND PREPAYMENT OF FEES**

We are not required to provide financial information to our clients as we do not: 1) require the prepayment of more than \$1,200 in fees and six or more months in advance, 2) take custody of client funds or securities, 3) have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.

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

Our firm is registered with the U.S. Securities and Exchange Commission and therefore we are not required to respond to this item.

## **Item 20 Additional Information**

### **YOUR PRIVACY**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

### **TRADE ERRORS**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, you will keep the profit.

**CLASS ACTION LAWSUITS**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.