



# SMI ADVISORY SERVICES

## **Form ADV Part 2A: Firm Brochure Item 1 – Cover Page**

SMI Advisory Services, LLC  
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The date of this brochure is May 15, 2018.

This brochure (“Brochure”) provides information about the qualifications and business practices of SMI Advisory Services, LLC. (“SMI”), a registered investment adviser. Registration does not imply a certain level of skill or training but only indicates that SMI has registered its business with state and federal regulatory authorities, including the United States Securities and Exchange Commission (our SEC number is 801-64882). 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.

If you have any questions about the contents of this Brochure, please contact us at (877) 677-7764 or [support@SMIPrivateClient.com](mailto:support@SMIPrivateClient.com). Additional information about SMI is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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## **Item 2 - 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. In this disclosure brochure the address of the firm has been changed.



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## Item 4 - Advisory Business

### ***General Description of the Firm***

SMI Advisory Services, LLC (“SMI”), an Indiana limited liability company, was founded August 31, 2005. SMI is a joint venture owned by Marathon Partners, LLC (Austin Pryor is the majority owner, Mark Biller owns over 20%) and Omnium Investment Company, LLC (which is owned by Omnium Capital, LLC, whose majority owners are Anthony Ayers, Fred Beerwart and Eric Collier). SMI is an investment advisor, registered with the Securities and Exchange Commission (“SEC”). SMI manages separate accounts (private accounts) and is the advisor to the SMI Family of mutual funds, all open-end registered investment companies (i.e. mutual funds). An investment with SMI is suitable for long-term investors only. SMI client accounts and shares of any of the SMI family of mutual funds are not short-term investment vehicles.

### ***Summary of SMI’s Advisory Services***

SMI offers a proprietary investment service based on investment strategies that originated in the Sound Mind Investing newsletter, which is an affiliate of SMI, due to the ownership interests of Austin Pryor and Mark Biller (see Item 10, below). The Sound Mind Investing newsletter was designed for do-it-yourself investors.

The SMI Funds exist to automate, and potentially improve upon, Sound Mind Investing strategies that investors might find difficult and time-consuming to implement on their own. Shareholders purchase the SMI Fund(s) they deem appropriate for their particular situation based on the prospectus-stated strategy of each of the SMI Fund(s).

The SMI Separately Managed Accounts (or Privately Managed Accounts “PMA(s)”) also provide Clients with a way to have the SMI strategies implemented for them, but compared to the SMI Family of mutual funds, PMAs may provide the Client with greater flexibility to tailor their portfolio to the ratio of the SMI strategies that the Client chooses. Once the strategy allocations are selected by the Client, SMI manages each Client’s portfolio according to those strategy allocations.

We encourage visiting our website [www.SMIPrivateClient.com](http://www.SMIPrivateClient.com) for additional information.

When trades are being placed in both SMI Fund and PMA accounts on the same day, a fixed rotation schedule is used to determine which trades are placed first. This is done to prevent preferential treatment of one Client over another.

### ***Tailored Advisory Services***

To provide its advisory services SMI collects information from each PMA Client, including specific information about their investing profile such as financial situation, investment experience, risk tolerance and investment objectives. SMI maintains this information in strict confidence subject to its Privacy Policy. When implementing its



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investment solutions, SMI relies upon the information received from a Client. Although SMI contacts its Clients periodically as described further in Item 13 below, a Client must promptly notify SMI of any change in their financial situation or investment objectives that might require a review or revision of their portfolio.

SMI's service includes preselected securities for each strategy the Client selects. SMI does not allow Clients to select their own securities, instead the Client selects their strategies and SMI selects the corresponding securities.

Clients may discuss imposing reasonable restrictions on their account, but must understand that it may preclude them from participating in a particular strategy or model. For example, holdings that are special or restricted by the client will typically not be included as part of the overall strategy or model. More specifically: If the Client has owned MSFT for 10 years and has no plans to sell it. MSFT would be identified as a special holding in the Client's Account and it would be excluded from SMI's PMA management fee.

## ***Assets Under Management***

As disclosed in SMI's Form ADV Part 1, SMI managed approximately \$462 million of discretionary assets as of May 15, 2018.

## **Item 5 - Fees and Compensation**

### ***Advisory Fees***

SMI is compensated for its advisory services by charging a fee based on the net market value of a Client's Account. SMI reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for certain Client Accounts for any period of time determined by SMI. In addition, SMI may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients.

The following are the annual management fees for the SMI Family of mutual funds:

### **The Sound Mind Investing Fund) Management Fee**

<b><u>Fund Assets</u></b>	<b><u>Management Fee</u></b>
Less than \$250 million	1.00%
Over \$250 million to \$500 million	0.90%
Over \$500 million	0.80%



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## **SMI Conservative Allocation Fund (SMILX) Management Fee**

<b><u>Fund Assets</u></b>	<b><u>Management Fee</u></b>
Less than \$100 million	0.90%
Over \$100 million to \$250 million	0.80%
Over \$250 million to \$500 million	0.70%
Over \$500 million	0.60%

<b><u>The SMI Dynamic Allocation Fund (SMIDX) Management FeeFund Assets</u></b>	<b><u>Management Fee</u></b>
Less than \$250 million	1.00%
Over \$250 million to \$500 million	0.90%
Over \$500 million	0.80%

## **The SMI 50/40/10 Fund (SMIRX) Management Fee**

<b><u>Fund Assets</u></b>	<b><u>Management Fee</u></b>
Less than \$250 million	1.00%
Over \$250 million to \$500 million	0.90%
Over \$500 million	0.80%

## **The SMI Bond Fund (SMIUX) Management Fee**

<b><u>Fund Assets</u></b>	<b><u>Management Fee</u></b>
Less than \$100 million	0.75%
Over \$100 million to \$250 million	0.70%
Over \$250 million	0.65%

For PMAs, SMI charges the following annual management fees:

<b><u>Program</u></b>	<b><u>Client Assets</u></b>	<b><u>Annual Fee</u></b>	<b><u>Transaction Costs</u></b>
SMI Private Client - Classic	\$10,000 - \$249,999	1.00%	Included
SMI Private Client - Select	\$250,000 - \$999,999	0.95%	Included
SMI Private Client - Premier	\$1,000,000 and above	0.85%	Included

Detailed information about the SMI Private Client – Wrap Fee Program can be found in the SMI Private Client - Wrap Fee Brochure, which is available upon request and will be provided to you prior to opening such an account.



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When the Stock Upgrading strategy is used in the PMA, SMI may use the Sound Mind Investing Fund (“SMIFX”) to achieve exposure to that strategy. When SMIFX is used, SMI will exclude those assets invested in SMIFX from the Account fee. This exclusion will be made because SMI receives a management fee from SMIFX.

When comparing the fees associated with owning SMIFX versus the PMA management fee, depending on the total assets under management in SMIFX, the fee the Client will pay for Stock Upgrading via SMIFX (its net expense ratio) **will normally be higher** than the PMA management fee.

If SMIFX is not used, the version of Stock Upgrading used by SMI may use as few as 1 and up to 3 underlying funds per risk category.

Furthermore, if for any reason any of the other SMI Family of funds are owned in a PMA, those assets will also be excluded from SMI’s PMA management fee and the client will instead incur the expense ratio of the SMI funds that are used, which may be higher than the PMA management fee. The specific manner in which fees are charged by SMI is established in a Client’s written agreement with SMI.

For PMAs, SMI will generally bill its fees at the end of each calendar month. Fees will be calculated daily, based on the value of the Account assets (securities, cash and cash equivalents) under management as of the close of business each day as valued by the Custodian, when available, or otherwise in good faith, and paid monthly.

The initial Account Fee is due at the end of the month in which the PM management agreement is executed. Subsequent Account Fees will be assessed at the end of each month and paid on or around the first business day of the following month. Additional deposits of funds and/or securities will be subject to the same billing procedures. This includes deposits of stocks, bonds, mutual funds and any other securities approved by SMI for investment in this type of account. In the event of termination, the final Fee for the Account will be calculated and collected on or around the day that SMI receives notification of the termination.

Client accounts will hold a variety of securities including, but not limited to, shares of investment companies, including open-end and closed-end mutual funds, exchange-traded funds (“ETFs”), potentially money market funds and cash. Investment companies incur internal expenses and pay advisory fees to their investment advisors, which reduce the net asset value of the funds’ shares. Additionally, we charge our clients an advisory fee based on the value of their total portfolio, which may include investment company holdings. Therefore to the extent a client’s account is invested in investment companies, the client may pay two levels of advisory fees for the management of the client’s assets, both directly to SMI and indirectly through the management fees assessed by the investment companies in the client’s account. We do intend to invest in such securities because they are an integral part of the strategies and in our judgment, the potential



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benefits of such underlying investments justify the payment of any associated fees and expenses. Complete details of these internal fees and expenses are explained in the prospectus for each investment. You are strongly encouraged to read these documents before making or authorizing any investments. We are available to answer any questions you have about fees and expenses.

## ***Other Account Fees***

SMI is a “fee only” investment advisor, and other than its advisory fees described above, neither the firm nor its employees receive or accept any direct or indirect compensation related to investments that are purchased or sold for Client Accounts. This means that Clients will not be sold products or services that create additional fees or compensation to benefit SMI or its employees or its affiliates other than those described in this Brochure.

However note that the Sound Mind Investing Fund (“SMIFX”) may be used to provide exposure to the Stock Upgrading strategy in PMAs. Therefore, any assets allocated to SMIFX in PMAs shall be excluded from the PMA management fee. Depending on the assets under management in SMIFX at the time, the management fee that SMI receives from SMIFX will normally be greater than SMI’s PMA management fee. This means that if SMIFX is used, the fee the Client will pay for Stock Upgrading via SMIFX (its net expense ratio) **will normally be higher** than the PMA management fee. As stated in Section 4.B, above, any decision to use the Stock Upgrading strategy is made by the Client, since they select their exposure to the various strategies.

Furthermore, if for any reason, any of the other SMI Family of funds are owned in a PMA, those assets will also be excluded from SMI’s PMA management fee and the client will instead incur SMI funds related expenses, which may be higher than SMI’s PMA management fee.

In addition to SMI’s fees (described previously), clients will also incur in the course of SMI’s investment management of their account(s):

- Costs associated with securities transactions, such as brokerage commissions, mark-ups, mark-downs, odd-lot differentials, SEC fees, Early Redemption Penalties and other transaction costs;
- transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions; and
- Fees charged by brokers, banks or other qualified custodians for custody services.

Client accounts that purchase securities issued by investment companies, including open-end and closed-end mutual funds, exchange-traded funds (“ETFs”) and money market funds, may incur sales charges or service fees to third parties in connection with such purchases, including deferred sales charges. Further, such investment companies may also charge internal management fees, which are disclosed in the applicable fund’s prospectus.



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These third-party fees and costs are in addition to SMI's fees. SMI does not receive any portion of these fees and costs. Item 12 further describes the factors that SMI considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

SMI does not charge performance-based fees. SMI's fees are only charged as disclosed above in Item 5.

## **Item 7 - Types Of Clients**

SMI generally provides investment advice to individuals and investment companies. For the SMI Family of mutual funds, the minimum investment is \$500. If an automatic investment plan is established, then the initial minimum is \$0.

In general, a Client should have a minimum of \$20,000 to establish a PMA. This minimum may be waived on an account-by-account basis at the sole discretion of our management.

### **Additional conditions for opening and maintaining a PMA:**

The Client must acknowledge their ability and willingness to conduct their relationship with SMI on an electronic basis. Under the terms of the Account Agreement, each Client agrees to receive all Account information and Account documents (including this Brochure), and any updates or changes to same, through their access to the Site and SMI's electronic communications. Unless noted otherwise on the Site or within this Brochure, SMI's advisory service, the signature for the Account Agreement, and all documentation related to the advisory services are managed electronically. SMI does make individual representatives available to discuss servicing matters with Select and Premier Clients.

Investors with specific restrictions are not permitted to become Clients.

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

The following is a list of the strategies (and their corresponding methods of analysis) used by SMI.

### **Strategy #1 - Sector Rotation:**

This strategy typically invests in a single special-purpose stock fund (ETF) that focuses on a specific sector, like biotech or financial services. These funds may use leverage. These funds are identified by SMI's quantitative analysis techniques. Sector Rotation is usually considered a high-risk, but potentially high-reward strategy. While its peaks and valleys are expected to be higher and lower than the other SMI strategies, Sector



Rotation's goal is to generate impressive long-term returns. Both SMI PMAs and SMI Funds will typically achieve exposure to this strategy by owning one stock fund or ETF at a time.

## **Strategy #2 - Stock Upgrading:**

Stock Upgrading is a "momentum" strategy built on the idea that recent performance tends to persist. The strategy normally diversifies across five stock fund "risk categories". Stock Upgrading attempts to own the best-performing stock mutual funds and ETFs, regardless of what the current market environment may be. In this strategy thousands of mutual funds are continually monitored and ranked in order to determine which ones have been performing the best recently. Selected funds showing superior performance relative to their peer group are purchased and held until they stop outperforming. When that occurs, those lagging funds are sold and replaced with other funds showing stronger recent performance.

While market conditions are constantly changing, fund managers rarely change their approach. Managers that excel under one set of market conditions are often only average (or worse) under a different set of conditions. Rather than buy a fund and hold it through both the periods that favor the manager's approach and the periods that don't, Stock Upgrading attempts to seek out and buy those funds that are excelling right now. The strategy makes no attempt to predict which funds will lead the market in the future. Instead, Stock Upgrading helps us to gradually move into funds that reflect the market's continually evolving leadership. While most investment approaches focus on long-term performance as the key to determining which mutual funds will succeed in the future, this strategy believes the opposite is true. The strategy focuses only on returns over the past 12 months in determining which funds are the best candidates for ownership. This approach to selecting new funds, coupled with a strong discipline to replace lagging funds, is the key to the Upgrading strategy. The Stock Upgrading strategy typically invests in underlying funds in the following five "risk categories."

- Large-Cap Value
- Large-Cap Growth
- Small to Mid-Cap Value
- Small to Mid-Cap Growth
- International

These broad category definitions make a wide range of investment opportunities available since the strategy typically owns a mixture of foreign and domestic investments at any given time, as well as a mixture of funds that invest in both larger and smaller stocks. In addition, the strategy typically provides diversification among various management styles (i.e., "growth," "value," and other management styles).



### **Strategy #3 – Large Cap, Small Cap and International Indexing (Just the Basics):**

This is our simplest equity strategy, where portfolio changes are made just once a year. The strategy uses index funds / ETFs to proxy the stock markets, via Client-selected exposure to Large Cap, Small Cap and International index funds / ETFs. Because funds are not bought or sold throughout the year, this Just-the-Basics equity strategy can be especially well suited for use in taxable accounts. Professional management of this strategy is only available to SMI Clients via PMAs.

### **Strategy #4 - Dynamic Asset Allocation:**

Dynamic Asset Allocation (DAA) strives to capitalize on the fact that economic conditions change over time. The economy unpredictably cycles through extremes of prosperity, recession, inflation and deflation. During each of these economic phases, certain assets tend to perform well, while other assets do not. The goal of DAA is to invest in the asset classes that are best suited for the current economic environment and (possibly more importantly) to not be invested in the asset classes that are poorly suited for the current economic environment.

Both SMI PMAs and SMI Funds using this strategy will use exchange-traded funds to rotate among six asset classes, owning three asset classes at any one time. The six asset classes are:

- US Stock Market
- International Stock Market
- Bonds
- Real Estate
- Precious Metals (Typically Gold)
- Cash

DAA is designed to be a defensive, low-volatility strategy with the goal of demonstrating the power of “winning by not losing.”

### **Strategy #5 - Bond Upgrading:**

As with Stock Upgrading, Bond Upgrading is a “momentum” strategy built on the idea that recent performance tends to persist.

Bond Upgrading attempts to gain exposure to the best-performing bond types and bond durations, by applying special momentum techniques both within and across bond categories.

Both SMI PMAs and the SMI Funds using this strategy will typically allocate approximately half of the Client’s bond portfolio to less dynamic "core holdings," where the focus is stability and safety. The other half of the bond portfolio will use Bond Upgrading, which uses momentum based performance indicators of the various bond



categories to identify which categories may currently present the best investment opportunities.

## **Strategy #6 - Bond Indexing (Just the Basics):**

This is our simplest bond strategy, where bond index ETFs are used to proxy the US bond market. Professional management of this strategy is only available to SMI Clients via PMAs.

## **Risks of Loss:**

**Investing in securities involves risk of loss that clients should be prepared to bear.**

All investments involve risks that can result in loss:

- Loss of principal;
- A reduction in earnings (including interest, dividends and other distributions); and
- The loss of future earnings.

Additionally, these risks may include:

- Market risk;
- Interest rate risk;
- Issuer risk;
- General economic risk; and
- Taxation risk. ETFs with exposure to precious metals can produce negative tax situations. Therefore Clients should always consult with their tax professional prior to using the DAA strategy.

We manage each portfolio in a manner consistent with its appropriate level of risk, though SMI cannot guarantee any level of performance or that any Client will avoid a loss of Account assets. Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear. When evaluating risk, financial loss may be viewed differently by each Client and may depend on many different risk items, each of which may affect the probability of adverse consequences and the magnitude of any potential losses. The above risks may not be all-inclusive, but should be considered carefully by a prospective Client before retaining SMI's services. These risks should be considered as possibilities, with additional regard to their actual probability of occurring and the effect on a Client if there is in fact an occurrence.

## **Item 9 - Disciplinary Information**

Like all registered investment advisors, SMI is obligated to disclose any disciplinary event that might be material to any Client when evaluating our services. We do not have any legal, financial, regulatory, or other "disciplinary" item to report to any Client. This statement applies to our firm and to every employee of our firm.



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

SMI is the investment adviser to the SMI family of mutual funds: Sound Mind Investing Fund (“SMIFX”), SMI 50/40/10 Fund (“SMILX”) and the SMI Dynamic Allocation Fund (“SMIDX”), all open-end investment companies and each a Series of Valued Advisors Trust, which is a management investment company established under the laws of Delaware.

SMIFX and SMILX each commenced operations as a separate series (the “Predecessor Funds”) of the Unified Series Trust. On February 28, 2013, each Predecessor Fund was reorganized as a new series of Valued Advisors Trust by an Agreement and Declaration of Trust dated June 13, 2008.

SMI is a joint venture between Omnium Investment Company, LLC, and Marathon Partners, LLC. Omnium Investment Company was formed in 2005 and is owned by Omnium Capital, LLC, whose majority owners are Anthony Ayers, Fred Beerwart and Eric Collier. Marathon Partners was formed in 2005 by Austin Pryor, Mark Biller and the other senior personnel of Sound Mind Investing, a Christian non-denominational financial newsletter. Austin Pryor is the majority owner of Sound Mind Investing, LLC, and Mark Biller serves as Executive Editor of the Sound Mind Investing newsletter and online services. The Sound Mind Investing newsletter was first published in 1990. The newsletter provides investment recommendations to thousands of subscribers using a variety of investment strategies.

Funds in the SMI Family of funds may buy, sell or hold the same securities owned in SMI PMAs.

## **Item 11 - Code of Ethics, Participation or Interest in Client**

SMI has adopted a Code of Ethics (“Code”) to address the securities-related conduct of our advisory representatives and employees. The Code includes our policies and procedures developed to protect your interests in relation to the following:

- the duty at all times to place your interests ahead of ours;
- all personal securities transactions of our advisory representatives and employees will be conducted in a manner consistent with the Code and avoid any actual or potential conflict of interest, or any abuse of an advisory representative’s or employee’s position of trust and responsibility;
- advisory representatives may not take inappropriate advantage of their positions;
- information concerning the identity of your security holdings and financial circumstances are confidential; and
- independence in the investment decision-making process is paramount.

We will provide a copy of the Code to you or any prospective client upon request.



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We buy and sell securities for our proprietary accounts that we also recommend to clients. Our advisory representatives and employees are also permitted to buy or sell the same securities for their personal and family accounts that are bought or sold for your account(s). The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is owned by you or considered for purchase or sale for you.

We have adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in your best interest,
- prohibit favoring one client over another, and

Advisory representatives and employees must follow our procedures when purchasing or selling the same securities purchased or sold for you.

## **Item 12 - Brokerage Practices**

SMI participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC. TD Ameritrade is an independent [and unaffiliated] SEC-registered broker-dealer. 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.

In recommending TD Ameritrade as custodian and as the securities brokerage firm responsible for executing transactions for your portfolios, we consider at a minimum their:

- existing relationship with us,
- financial strength,
- reputation,
- reporting capabilities,
- execution capabilities, and
- pricing.

The determining factor in the recommendation of TD Ameritrade to execute transactions for your accounts is not the lowest possible cost, but whether TD Ameritrade can provide what is in our view the best qualitative execution for your account.

TD Ameritrade provides us with access to its institutional trading and custody services, which includes:

- brokerage,
- custody, and
- access to mutual funds and other investments that are otherwise generally available



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only to institutional investors or would require a significantly higher minimum initial investment.

We are not required to place a minimum volume of transactions in order to receive these services. TD Ameritrade does not charge separately for holding our clients' accounts, but may be compensated by you through other transaction-related fees associated with the securities transactions it executes for your accounts.

TD Ameritrade makes available to us other products and services (either for free or at a discount) that benefit us but may not benefit you directly. Some of these products and services assist us in managing and administering our client accounts, such as software and other technology that:

- provide access to account data such as:
  - duplicate trade confirmations,
  - bundled duplicate account statements,
  - research related products and tools,
  - consulting services,
  - access to mutual funds with no transaction fees and to certain institutional money managers,
  - discounts on compliance, marketing, research, technology and practice management products or services provided to Advisor by third party vendors, and
  - access to an electronic communication network for client order entry and account information;
- facilitate trade execution, including:
  - access to a trading desk serving advisory participants exclusively and
  - access to block trading which provides the ability to combine securities transactions and then allocate the appropriate number of shares to each individual account;
- provide research, pricing information and other market data;
- facilitate payment of our fees from client accounts; and
- assist with back-office functions, record keeping and client reporting; and
- receipt of compliance publications.

TD Ameritrade also makes available to us other services intended to help us manage and further develop our business. These services include:

- consulting,
- publications and conferences on practice management,
- information technology,
- business succession,
- regulatory compliance, and
- marketing.

TD Ameritrade may make available or arrange for these types of services to be provided to us by independent third parties. TD Ameritrade has the option to discount or waive the



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fees they would otherwise charge for some of the services made available to us. They may also pay all or a part of the fees of a third party providing these services to us.

We receive economic benefits as a result of our relationship with TD Ameritrade because we do not have to produce or purchase the products and services listed above. This creates an incentive to recommend a broker-dealer based on our interest in receiving the available products and services, rather than on your interest in receiving best execution.

It is possible that commissions and other fees for transactions executed through TD Ameritrade are higher than commissions and other fees available if you use another custodial or brokerage firm to execute transactions and maintain custody of your account. Many of the services described above may be used to benefit all or a substantial number of our accounts, including accounts not maintained through the broker-dealer who provided the service. We do not attempt to allocate these benefits to specific clients.

## ***Aggregated Trades***

Whenever possible, SMI will aggregate trades from multiple clients and execute such transactions in large blocks. The purpose of aggregating trades is to achieve economies of scale and obtain best possible execution. This applies specifically when ETFs are traded in more than one client account. In those instances, aggregated trades are made and then allocated between the client accounts. SMI believes combining orders for accounts into an aggregated “block” will, over time, be advantageous to all participants. However, in particular cases the average price at which the “block” was executed could be less advantageous to one particular Client Account than if the Client Account had been the only account involved in the transaction or had completed its transaction before the other participants.

In the event of partial execution of the aggregated trades, the allocation between the Client Accounts will be made in the same ratio as the original order. Allocated securities will be valued at the weighted average execution price.

For SMI’s PMAs, TD Ameritrade will be the only broker, so when trades are placed, they will be sent to TD Ameritrade for execution.

When the same security is being traded in the SMI Fund(s) and the PMA(s), because different brokers will be used, SMI will use a fixed rotation schedule to determine which group (PMAs or SMI Funds) will trade first. This fixed rotation ensures that both groups are treated fairly relative to each other and that neither group is given preferential treatment. Additionally, if the Sound Mind Investing newsletter (an affiliated firm) will be making the same security trade(s) that day, then the newsletter will wait to give its trade notification to its subscribers until after both the SMI Funds’ and the PMA trades have been placed.

Aggregated trades are placed only when we reasonably believe that the combination of



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the transactions provides better prices for clients than had individual transactions been placed for clients. Transactions for nondiscretionary client accounts are not bunched with transactions for discretionary client accounts. Transactions for the accounts of our employees may be included in bunched trades. They receive the same average price and pay the same commissions and other transaction costs, as clients. Transactions for the accounts of our employees will not be favored over transactions for client accounts.

We are not obligated to include any client account in an aggregated trade. Aggregated trades will not be placed for any client's account if doing so is prohibited or otherwise inconsistent with that client's investment advisory agreement. No client will be favored over any other client.

## ***Agency Cross Transactions***

Agency Cross Transactions are transactions in which SMI acts as an agent for one or more clients and transfers securities from one client account to another client account at a price determined by SMI. SMI will not normally engage in Agency Cross Transactions. In the rare event that such a transaction is deemed to be in the best interest of all involved clients, the transaction will be executed only when exchange listed securities are involved, at the closing price as reported by the listing exchange. All such transactions must be approved in advance by the Senior Portfolio Manager, and the Chief Compliance Officer, and a written record of such approval shall be maintained with the permanent records of all involved clients.

## ***Trade Errors***

It is SMI's policy that clients must not be disadvantaged if a trade entered into a Client Account contains an error (either wrong number of shares, wrong product or wrong account). Trades are amended to reflect the original intent of the trade order. If this change results in a trading loss, we will reimburse this loss to you. If this change results in a trading gain, that gain is applied to your account.

## **Item 13 - Review of Accounts**

Strategies and models are reviewed by the portfolio managers on an ongoing basis. Accounts are also reviewed upon triggering events such as:

- a change in your financial condition,
- a significant change in the market environment, or
- a request to liquidate and distribute a significant portion of the portfolio.

You will receive statements from your custodian at least quarterly. We recommend that you review these statements carefully. We do not provide additional regular reports.



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

We do not directly or indirectly compensate any person who is not an advisory affiliate of SMI for client referrals.

We receive certain economic benefits as a result of our business arrangements with the custodians and broker-dealer who help us service your accounts. Those benefits are described in detail in the preceding section entitled “Brokerage Practices.”

## **Item 15 - Custody**

SMI is considered to have custody of client funds solely because we deduct our advisory fees directly from the PMAs we manage. However, we do not provide custodial services. You will receive statements directly from your custodian reflecting the account activity and holdings at least quarterly. PMA clients also have online access to view account activity and performance. You should carefully review the statements received from your custodian and verify that the transactions in your account are consistent with your investment goals.

## **Item 16 - Investment Discretion**

SMI typically receives discretionary authority from the client at the outset of an advisory relationship (via the investment advisory agreement) to select, purchase and sell securities for the client’s account. This discretion includes the authority to place securities transactions without prior consent from you. SMI will observe limitations and/or restrictions placed by the Client on managing the account (See Item 4).

## **Item 17 - Voting Client Securities**

In the SMI family of mutual funds, SMI as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Our firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm’s proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making information available about the voting of proxies for their portfolio securities and maintaining relevant and required records.

SMI does not take any action or render any advice with respect to voting of proxies solicited by or with respect to the issuers of securities in which assets of PMAs may be invested. In addition, we do not render any advice or take any action on your behalf with respect to securities or other investments held in the account, or the issuers thereof, which become the subject of any legal proceedings, including those under the Federal bankruptcy laws. SMI arranges with your custodian for you to receive proxy materials



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and other notices concerning securities in your account.

## **Item 18 - Financial Information**

SMI has no financial commitment or condition that is reasonably likely to impair its ability to meet its contractual commitments to its clients, SMI has never been the subject of any bankruptcy proceeding.