

## Item 1 – Cover Page

# STOCK MARKETS INSTITUTE

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March 20, 2011

This Brochure provides information about the qualifications and business practices of **Stock Markets Institute (SMI)**. If you have any questions about the contents of this Brochure, please contact us at +1 (312) 235 2142 (US) or +7 495 129 1522 (Europe), or by email at [support@optionsmart.com](mailto:support@optionsmart.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Stock Markets Institute is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Stock Markets Institute also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that SMI provides to subscribers as required by SEC Rules. This Brochure dated March 20, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that SMI’s previous materials for subscribers did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide subscribers with a summary of such changes. SMI will also reference the date of the last annual update of the brochure.

Pursuant to new SEC Rules, SMI will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of SMI’s fiscal year. SMI may further provide other ongoing disclosure information about material changes as necessary.

SMI will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

The Brochure is also available on SMI’s web site [www.optionsmart.com](http://www.optionsmart.com)

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## **Item 4 – Advisory Business**

Stock Markets Institute (SMI) is an online publisher of investment newsletters. SMI was incorporated in 2002 under Delaware law by Dr. Sergey Perminov who serves as the company's President and is the principal owner of the company.

SMI publishes investment newsletters which relate to equity options trading. To the “premium” (paid) newsletter subscribers SMI also offers auto-trading possibility through a number of brokerage firms.

To the extent any information published by SMI in its free and paid newsletters may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person.

SMI's services which are targeting Mass Affluent (Gold membership) and High Net Worth individuals (Virtual Hedge Fund) are somewhat tailored to the individual needs of the subscribers by providing limited portfolio management advice.

SMI does not participate in wrap fee programs and does not manage subscriber assets. SMI's subscribers retain full control over their assets held in their accounts at participating brokerage firms.

## **Item 5 – Fees and Compensation**

SMI charges the following fees for its services:

QQQ Picks:

- Silver membership (accounts under \$150,000) subscription: \$149.95/month or \$349.95/quarter
- Gold membership (accounts greater than \$150,000) subscription: \$299.95/month or \$809.95/quarter

QQQ Enhanced:

- Silver membership (accounts under \$150,000) subscription: \$199.95/month or \$499.95/quarter

- Gold membership (accounts greater than \$150,000) subscription: \$599.95/month or \$1499.95/quarter

Virtual Hedge Fund (VHF):

- Monthly Management Fee equal to one twelfth of one percent (1% annually) of the Total Account Value; and
- Quarterly Performance Fee equal to 15% (fifteen percent) of the Account's quarter-end New Net Trading Profits, if any.

In certain cases SMI fees may be subject to negotiation, promotion discounts and free trials.

The subscribers are billed on a monthly or quarterly basis in advance, according to the subscribers' choice of the product. A subscriber may obtain a refund of a pre-paid fee for the current subscription period if the contract is terminated before the end of the billing period. The amount of the refund is determined on a case by case basis and is subject to the technical limitations of SMI's billing partners (ClickBank and PayPal).

The subscribers who subscribe to auto-trading service also incur brokerage fees for the trades which are executed by SMI's partner brokers based on SMI's trading signals. SMI is not a party to SMI's subscribers' agreements with their brokers and does not receive any compensation or other benefits from its partner brokers.

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

SMI enters into performance fee arrangements with subscribers qualified for the autotrading product called "Virtual Hedge Fund" (minimum value of starting account is currently set at \$100,000). Standard performance fees are set as below, but may be subject to individualized negotiation with the subscriber, depending on the size of the account.

Current performance fees are as follows:

(a) a monthly Management Fee equal to one twelfth of one percent (1% annually) of the Total Account Value; and

(b) a quarterly Performance Fee equal to 15% (fifteen percent) of the Account's quarter-end New Net Trading Profits, if any.

For the purpose of calculation of Fees, the subscriber must send to SMI by e-mail the monthly account statement from the participating brokerage, no later than the fifth business day of the following month.

Total Account Value is set as equivalent to Total Account Value stated in the monthly account statements from the Broker for the Account.

New Net Trading Profits are defined as the quarterly increase of Total Account Value of the trading account at the Broker, adjusted for additions or withdrawals from the Account.

Management Fee is paid whether or not the Account has a profit. Management Fee is payable at the beginning of each calendar month and is calculated as one twelfth of one percent of Total Account Value at the end of the previous calendar month, before current management and performance fees are deducted. The initial Management Fee is pro-rated from the date of the Agreement, with Total Account Value calculated as the amount of the Initial Deposit.

Performance Fee is payable only on New Net Trading Profits. Thus, if the Account incurs a loss after a Performance Fee payment is made, SMI will retain the payment but will receive no further Performance Fee payments in subsequent quarters until the Account achieves new net trading profits over and above any accumulated offsets.

Upon agreement with the Subscriber, or at the SMI's discretion, billing statements may be sent out on a quarterly rather than on a monthly basis.

Performance based fee arrangements may create an incentive for SMI to recommend investments which may be more speculative than those which would be recommended under a different fee arrangement. SMI manages this potential conflict of interest by enforcing a 100% trades disclosure rule. Overly aggressive trading behavior is therefore discouraged as any resulting losses are reflected on SMI's Control Accounts, which are published on the website and would discourage prospective subscribers from signing up.

## **Item 7 – Types of Clients**

Current subscribers to SMI newsletters are mostly individuals; however, SMI does not require the subscribers to disclose their status.

SMI's newsletter subscribers who choose auto-trading service are required to open an options trading account at one of participating brokers. Each broker has its own requirements for opening or maintaining such account.

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

Investing in securities involves risk of loss that subscribers and clients should be prepared to bear. Option trading involves risk and may not be suitable for all investors. SMI strongly suggests that prior to buying or selling an option, a person must read the “Characteristics and Risks of Standardized Options” booklet, written and published by the Options Clearing Corporation.

SMI’s investment strategy is focused on short-term trading because market plays these days are mostly short-lived and the market becomes less predictable in the long run. SMI’s key trading vehicles are bullish and bearish call/put spreads, powerful and easily adjustable option strategies, which have in SMI’s experience provided excellent opportunities to capture profit arising from stock market shifts.

SMI issues Alerts that trigger trades of Debit Option Spreads when an investor simultaneously buys an option with a higher premium and sells an option with a lower premium. The Debit Option Spreads that SMI recommends are riskier than owning the underlying equity, but losses and profits are limited. The maximum loss is the difference in premiums when both options expire worthless. The maximum gain is the difference in strike prices less the difference in premiums realized when both options expire in-the-money. SMI does market research to identify trends in the price of equities and Exchange Traded Funds to find opportunities worth recommending to its newsletter subscribers.

Online trading has inherent risk due to the fact that system response and access times may vary subject to market conditions, system performance and other factors. An investor should understand these and additional risks before trading options.

All investments involve risk, losses may exceed the principal invested, and the past performance of a security, industry, sector, market, or financial product does not guarantee future results or returns. The subscribers are responsible for evaluating the merits and risks associated with the use of SMI’s systems, services or products. Multiple leg options strategies involve additional risks and multiple commissions, and may result in complex tax treatments. Subscribers are encouraged to consult a tax professional prior to implementing these strategies.

Content published by SMI does not constitute a recommendation that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person. SMI does not provide personal advice concerning the nature, potential, value or suitability of any particular security, portfolio of securities, transaction, investment strategy or other matter. To the extent any of the content published on the Site

may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of SMI or the integrity of SMI's management. SMI has no information applicable to this Item.

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

Registered investment advisers are required to disclose all material facts regarding any other financial activities and affiliations. SMI has no information applicable to this Item.

## **Item 11 – Code of Ethics**

SMI has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its newsletter subscribers. The Code of Ethics includes provisions relating to the confidentiality of subscriber information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at SMI must acknowledge the terms of the Code of Ethics annually, or as amended.

SMI anticipates that, in appropriate circumstances, consistent with subscribers' investment objectives, SMI may recommend to investment advisory subscribers or prospective subscribers, the purchase or sale of securities in which SMI and/or its subscribers, directly or indirectly, have a position of interest. SMI's employees and persons associated with SMI are required to follow SMI's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of SMI and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for SMI's subscribers. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of SMI will not interfere with (i) making decisions in the best interest of advisory subscribers and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.



SMI's subscribers or prospective subscribers may request a copy of the firm's Code of Ethics by contacting [support@optionsmart.com](mailto:support@optionsmart.com)

## **Item 12 – Brokerage Practices**

SMI publishes on its website a list of brokerage firms which are connected to SMI's auto-trading programs. The choice of partner brokers depends on their ability to execute SMI's trading signals in compliance with SMI's requirements, and on the level of commissions. Current and prospective subscribers are welcome to suggest new brokerages for potential partnership with SMI.

Subscribers of SMI's Virtual Hedge Fund service are required to have an account with eOption brokerage due to the fact that Control Accounts, owned by SMI to monitor the performance of the product, are also held with eOption.

SMI's subscribers enter into customer agreements with their brokers. SMI is not a party to them. SMI's subscribers pay their brokers commissions and fees to execute their orders and carry their accounts. SMI and the brokers do not pay any consideration to each other to refer customers or promote each other's businesses.

Brokerages post on their web sites a list of all their autotrading partners, including SMI. Other than this, SMI does not receive any soft dollar benefits or subscriber referrals from its partner brokers.

## **Item 13 – Review of Accounts**

SMI does not have access to any subscriber accounts; therefore, account review is not included in the QQQ Picks and QQQ Enhanced services.

Virtual Hedge Fund subscribers are required to submit their eOption monthly account statements to SMI for billing purposes and for the account review. The review takes place on a monthly basis, includes recommendations regarding trading allocations and is conducted by the Chief Investment Officer.

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

SMI has no information applicable to this Item.

### **Item 15 – Custody**

SMI does not have custody of client funds or securities.

### **Item 16 – Investment Discretion**

SMI does not receive discretionary authority to manage securities accounts on behalf of the subscribers.

### **Item 17 – Voting Client Securities**

As all assets are controlled by subscribers, SMI does not have any authority to and does not vote proxies on behalf of its newsletter subscribers.

### **Item 18 – Financial Information**

SMI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its subscribers, and has not been the subject of a bankruptcy proceeding.