

## Item 1 – Cover Page

July 21, 2012

# STOCK MARKETS INSTITUTE

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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 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 is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

Business address: Udaltsova Street 52, office 1402, Moscow, 119607 Russia

## Item 2 – Material Changes

Current Brochure, dated July 21, 2012 is an update to the Brochure dated June 12, 2012, prepared according to the SEC's requirements and rules.

Material changes since our last updating amendment on June 12, 2012, are as follows:

1. SMI has updated its fee schedule (Item 5 – Fees and Compensation, and Item 6 – Performance-Based Fees and Side-by-Side Management)
2. SMI has hired a solicitor (Item 14 – Client Referrals and Other Compensation)
3. SMI has provided a new classification of its clients (Item 7 – Types of Clients)

Pursuant to new SEC Rules, SMI will ensure that you receive a summary of any material 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)

Additional information about SMI is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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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 and research materials relating to equity options trading. SMI's online publishing is conducted under "OptionSmart" brand.

Premium (paid) subscribers to SMI's newsletters are offered trading alerts (a/k/a "Picks") and auto-trading possibility through a number of brokerage firms. SMI emails auto-trading alerts to its subscribers to open, roll, or close equity options positions. SMI also emails its alerts to its subscribers' brokers, who can then execute the recommended trades on a subscriber's account, provided that the subscriber had signed up for one of SMI auto-trading newsletters.

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

## **Item 5 – Fees and Compensation**

SMI's fees in connection with each Newsletter are based on the size of the client's accounts utilizing the Newsletter, as follows:

Accounts Under \$100,000: In the event the aggregate value of all Accounts utilizing a Newsletter is less than \$100,000 as of the end of a calendar month, the Client pays SMI a fee equal to \$195 for that month (the "Subscription Fee") for each such Newsletter.

Accounts Greater than \$100,000: In the event the aggregate value of all Accounts utilizing a Newsletter is greater than \$100,000 as of the end of a calendar month, then the fee payable to SMIL depends on whether the Client is a "qualified client" as such term is defined in SEC Rule 205-3 (a "Qualified Client").

Non-Qualified Clients: If the Client is not a Qualified Client, then the Client pays in arrears a monthly management fee (the “Non-Qualified Management Fee”) equal to one twelfth ( $1/12^{\text{th}}$ ) of seven percent (7%) of the average of the beginning and ending balance of the Account for each calendar month. The Non-Qualified Management Fee is pro-rated to the extent the Client Agreement is executed after the first day of a calendar month or terminated on a date other than the last day of a calendar month. The Non-Qualified Management Fee is paid whether or not the Account has generated a profit for the calendar month.

Qualified Clients: If the Client is a Qualified Client, then the Client pays in arrears a monthly management fee (the “Qualified Management Fee”) equal to one twelfth ( $1/12^{\text{th}}$ ) of one percent (1%) of the average of the beginning and ending balance of the Account for each calendar month. The Qualified Management Fee is pro-rated to the extent the Client Agreement is executed after the first day of a calendar month or terminated on a date other than the last day of a calendar month. The Qualified Management Fee is paid whether or not the Account has generated a profit for the calendar month. In addition, the Client pays a quarterly performance fee (the “Performance Fee”) equal to 20% of any Net Trading Profits in the Account over the Prior High Account Value.

“Net Trading Profits” equals the increase in the value of the Account between the first day of the quarter (or the date the Client subscribes for a Newsletter, if other than the first day of a calendar quarter) and the last day of the quarter (or the date the Client Agreement is terminated by Client or SMI, if other than the last day of a calendar quarter), adjusted appropriately for any additions to or withdrawals from the Account during the quarter.

“Prior High Account Value” is the highest Account value immediately after the determination and payment of a Performance Fee with respect to the Account, adjusted appropriately for any additions to or withdrawals from the Account since the determination of the Performance Fee.

Once the Client’s account reaches \$100,000, the Client is responsible for notification of SMI by email at [support@optionsmart.com](mailto:support@optionsmart.com) about reaching the threshold and for sending in their account statements to ensure smooth transfer from flat fee subscription to management fee compensation basis.

For the purpose of calculation of management fees, the client whose account balance is equal or greater than \$100,000, 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.

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

Clients who use auto-trading also incur brokerage fees for the trades executed by SMI's partner brokers based on SMI's trading signals. SMI is not a party to its clients' 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 and Management Fee arrangements with qualified clients (as defined in the SEC Rule 205-3), see Item 5 above.

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

SMI's fees may be subject to negotiation.

## **Item 7 – Types of Clients**

SMI classifies its clients based on the size of the clients' accounts (see Item 5 above), and their ability to satisfy the "Qualified Client" requirements, as such term is defined in SEC Rule 205-3 (see Item 5 above).

There is no minimum account size for the accounts paying a flat Subscription Fee.

SMI's clients who choose to auto-trade their accounts, need to open a dedicated 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

SMI calculates the performance of its Alerts by dividing the amount of profit or loss from a position (including all roll segments) made by the amount of money invested (including gains and losses from positions rolled). SMI takes the following steps to calculate its Track Records:

- (1) SMI records the following information in its database when a spread position is opened: (i) the name of the spread; (ii) the date it was opened, and (iii) the price at which it was opened in the “Open Positions Table”;
- (2) SMI enters a similar record in its database when a spread positions is closed showing: (i) a T-number for the “Position” (The term “Position” means a spread position that has been opened and closed. If a spread position has been rolled over to contracts with later expiration dates, the spread position is not deemed closed until the position has expired or it has been liquidated. In case of a rolled position, each segment received its own T-number. Trades are recorded in SMI’s Track Records in chronological order based on the dates they were opened.); (ii) the date it was closed; and (iii) the exit price for the Trade (the computer program also records the amount of time the position was open);
- (3) SMI’s computer program calculates the performance of its Alerts by dividing the amount of profit or loss from a round turn trade by the amount of money invested;
- (4) When a spread position is rolled over, SMI records this information in its Track Records (showing the amounts credited and debited to the Control Account based on the values of each leg of the spread position when the entire position was rolled over); and
- (5) SMI posts the foregoing information on its website within one (1) to three (3) days of receiving the relevant Broker Reports and/or the confirmation statements from eOption for its Control Accounts.

SMI’s Alerts provide target prices for closing a spread position where SMI’s subscribers’ are instructed to close the position as soon as the target price is reached. In other words, each Alert that SMI issues to open a new spread position comes with a limit order to liquidate it when the target price is reached. From time-to-time, SMI issues Alerts to close a position before a target price is reached.

The Alerts that SMI issues to open a new spread position do not come with directions to roll it over as the expiration dates are approaching. If and when SMI believes a spread position should be rolled over to new option contracts with later expiration dates, it issues an Alert to its subscribers' brokers with these directions. A subscriber may have to pay an additional premium for the position when it is rolled.

Since January 2004, SMI has been publishing a complete list of the trades on its website that the brokers (including eOption) made based on its Alerts within about two (2) to three (3) days after a position was closed. SMI has also been publishing a list of its open positions on its website and in daily "Morning Update" emails since January 2004 for its subscribers and trial subscribers.

Since May 2009, SMI has been publishing its eOption monthly statements for its Control Accounts on its website for its QQQ Enhanced Picks for anyone visiting its website to see. In August 2010, SMI began publishing its eOption monthly statements for its QQQ Picks for anyone visiting its website to see. An up-to-date list of open positions is available to all subscribers on the product pages.

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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 are often 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, in SMI's experience, have provided excellent opportunities to capture profit arising from stock market shifts.

SMI issues Alerts to subscribers to open, roll and close "Debit Spreads" in equity options. A Debit Spread is opened when an investor simultaneously buys an option where the premium he pays is greater than the premium he receives for the option he sells. Debit Spreads are riskier than purchasing the underlying interest, but a Debit Spread places a limit on a trader's potential profits and losses. The maximum loss is the difference in the premiums when both options expire worthless. The maximum gain is the difference in the strike prices for both options less the difference in premiums when both options expire in the money. SMI's strategies do not involve making trades that would create short positions in a single option contract.



SMI does extensive market research based on various mathematical models that were created to identify trends in the price of equities and Exchange Traded Funds (ETFs) and selected blue chip stocks to find opportunities for its auto-trading subscribers. SMI's trading methodologies are geared toward predicting the strategies that large traders are using. The typical small trader cannot keep pace with the ever-changing positions of the high-volume, high-frequency traders who establish and close extremely large positions for very short periods of time. SMI believes that the positions they establish move prices dramatically in the short run before the market can digest the fundamental bases for the value of a given stock or stock index.

SMI believes that, while technology provides a great deal of information for the investing public, the small trader cannot digest this information quickly enough to use it wisely. SMI also believes that this inability to digest market information results in decisions based more on fear and greed than on rational decision-making while large traders are dictating the direction of prices for stocks by the very size of the positions they establish. SMI utilizes various techniques to understand the strategies that seek to understand the strategies of large traders studying their market behavior in relationship to SMI's analysis of price volatility and other technical and fundamental factors relating to the price of equities and equity options. SMI studies the news that floods the marketplace to determine what it can verify or not. SMI devotes its energies to understanding when it is worthwhile to join a trend or close a position before it ends.

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.

SMI issues Alerts based on its analysis of the options market and its judgment about whether opening, rolling, or closing a Debit Spread position would be wise. Each subscriber must exercise their own due diligence to evaluate whether the strategies SMI uses to pursue profits warrant the risks involved and whether trading options based on SMI's Alerts would be a suitable investment for them.

## **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 have included SMI's newsletters into their list of auto-trading investment newsletters. 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.

SMI's clients enter into customer agreements with their brokers. SMI is not a party to these agreements. SMI does not pay any commissions or fees to the brokers who execute its clients' orders. Rather, SMI's clients 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.

SMI's clients are free to direct their brokers to execute trades based on SMI's Alerts or not. SMI's clients retain full control over their accounts. SMI's clients do not authorize it to enter orders for them on a discretionary or a non-discretionary basis. SMI merely feeds its Alerts to its clients' brokers based on the clients' directions.

Brokerages post on their web sites a list of all their auto-trading 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 its clients' accounts; therefore, account review is not included in SMI services for flat fee subscribers. For clients who invest over \$100K and provide

their broker account statements, SMI reviews their accounts in comparison with SMI's Control Accounts and provides allocation recommendations.

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

As of July 10, 2012, SMI engages Gary Brown as a Solicitor to market SMI's services and to solicit and refer prospective clients to SMI for whom SMI's investment advisory services would be suitable, upon the terms and conditions of Solicitation Agreement signed with Gary Brown.

As a Solicitor, Gary Brown receives from SMI compensation in the form of referral fees based on the amount of revenue billed and collected from Referred Clients according to the following schedule:

- (i) 25% of any revenues billed and collected from a Referred Client in the first year of the Referred Client's subscription;
- (ii) 10% of any revenues billed and collected thereafter.

## **Item 15 – Custody**

SMI does not have custody of clients' funds or securities.

## **Item 16 – Investment Discretion**

SMI does not receive discretionary authority to manage securities accounts on behalf of its clients.

SMI's clients do not authorize SMI to enter orders for them on a discretionary or non-discretionary basis. SMI merely feeds its Alerts to its subscribers and their brokers based on the instructions it receives from them. SMI's clients are free to direct their brokers to execute trades based on SMI's Alerts or not. SMI's clients retain full control over their accounts.

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

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

## **Item 18 – Financial Information**

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