

## Item 1 – Cover Page

March 1, 2014

# OptionSmart

---

[www.optionsmart.com](http://www.optionsmart.com)

Mailing address:

Stock Markets Institute  
4281 Express Lane  
Suite L4538  
Sarasota, FL 34238

This Brochure provides information about the qualifications and business practices of **OptionSmart**, an online investment newsletter publishing service **powered by Stock Markets Institute (SMI)**. If you have any questions about the contents of this Brochure, please contact us at +1 (727) 369 6893 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.

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

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 March 1, 2014 is an update to the Brochure dated March 1, 2013, prepared according to the SEC's requirements and rules.

Material changes since our last updating amendment on March 1, 2013, are as follows:

1. SMI has updated its fee schedule (Item 5 – Fees and Compensation) to reflect that QQQ Enhanced is no longer offered to new subscribers and that QQQ Picks have been renamed to OptionSmart QQQ Picks.
2. SMI has updated its Disciplinary Information (Item 9 ) to include the firm's undertakings with regard to the consent order issued by the Securities & Exchange Commission (the "SEC") on September 21, 2012.

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 OptionSmart's web site [www.optionsmart.com](http://www.optionsmart.com)

### Item 3 -Table of Contents

Item 1 – Cover Page .....	1
Item 2 – Material Changes.....	2
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	4
Item 6 – Performance-Based Fees and Side-By-Side Management .....	6
Item 7 – Types of Clients.....	7
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Item 9 – Disciplinary Information .....	9
Item 10 – Other Financial Industry Activities and Affiliations.....	10
Item 11 – Code of Ethics .....	10
Item 12 – Brokerage Practices .....	11
Item 13 – Review of Accounts .....	11
Item 14 – Client Referrals and Other Compensation.....	12
Item 15 – Custody .....	12
Item 16 – Investment Discretion.....	12
Item 17 – Voting Client Securities .....	13
Item 18 – Financial Information.....	13

## **Item 4 – Advisory Business**

OptionSmart is an online publisher of investment newsletters, powered by Stock Markets Institute (SMI), 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 the "OptionSmart" brand.

Premium (paid) subscribers to OptionSmart 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 OptionSmart auto-trading newsletters.

To the extent any information published by OptionSmart 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 individual clients.

Additionally, SMI provides an investment management service through Beneficious Investment Management which specializes in Alternative Global Macro investment strategies.

SMI does not participate in wrap fee programs and does not manage Optionsmart subscribers' assets. OptionSmart subscribers 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 OptionSmart 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 subscription fee equal to \$195 (QQQ Picks) or \$219 (QQQ Enhanced) for that month (the

“Subscription Fee”) for each such Newsletter. Subscription fee is payable in advance and entered into a recurring billing arrangement via a billing partner.

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 SMI 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 five percent (5%) 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 separately invoiced and 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 fifteenth 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.

SMI's fees may be subject to negotiation. 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. Please see Item 12. Brokerage Practices for more information.

As of November 2013, SMI has stopped offering QQQ Enhanced Picks newsletter to new subscribers; however, the newsletter will continue to be supported for the current subscribers.

As of January 2014, QQQ Picks newsletter has been renamed to OptionSmart QQQ Picks.

## **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. This could be considered a potential conflict of interest, in that SMI has an incentive to favor accounts for which it receives a performance-based fee. SMI addresses this potential conflict by sending the Newsletter to all subscribers simultaneously, so as not to favor those subscribers paying performance-based fees over those subscribers who are not.

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

## **Item 7 – Types of Clients**

SMI provides investment services mostly to individuals and high net worth individuals. SMI classifies its clients based on the size of the clients' accounts, 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 a participating broker. Each broker has its own requirements for opening or maintaining such account.

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

OptionSmart 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 for its OptionSmart Newsletters are bullish and bearish call/put spreads. In SMI's experience, these are powerful and easily adjustable option strategies that 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 security, 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. OptionSmart 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.

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.

OptionSmart's alerts often include option spreads. While we have risk management practices in place to mitigate the risk of leverage, option spreads have a possibility of losing their value within relatively small movement of underlying stocks.

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 to its OptionSmart subscribers 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.

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

## **Item 9 – Disciplinary Information**

On September 21, 2012, a consent order was entered in an administrative proceeding initiated by the Securities & Exchange Commission (the “SEC”) on the same date, which proceeding is styled *In the Matter of Stock Markets Institute, Inc. and Sergey Perminov, Administrative Proceeding File No. 3-15038*. The SEC alleged that the Dr. Perminov and SMI violated Sections 206(2) and 206(4) of the Investment Advisers Act of 1940, and Rules 206(4)-1(a)(2) and (5) thereunder. The SEC alleged that in 2009 SMI’s website misrepresented the performance of the recommendations made by two of its newsletters in fiscal 2008. In the consent order, SMI and Dr. Perminov (a) agreed to cease and desist from violating Sections 206(2) and 206(4) of the Investment Advisers Act of 1940, and Rules 206(4)-1(a)(2) and (5) thereunder in the future, (b) were censured, (c) agreed to pay monetary penalties of \$75,000 and \$40,000, respectively, and (d) agreed to hire an independent consultant to perform an annual compliance review as of December 31, 2012 and 2013, to provide the SEC with a copy of the independent consultant’s report, and to adopt any recommendations of the independent consultant.

In compliance with the SEC consent order, SMI has retained services of an independent compliance consulting firm that has since been assisting SMI with establishing internal procedures and controls to ensure the accuracy of SMI’s representations regarding the performance of its trading recommendations to any investor or potential investor, including those on its website. The independent compliance consulting firm has also performed annual reviews of SMI’s internal controls, policies and procedures, performance

representations, and advertising materials for compliance with the Advisers Act. Monetary penalties levied on SMI and Dr. Perminov have been paid to SEC in full.

Complete performance histories for all SMI's newsletters from the date that control accounts were instituted for the newsletter have been made available to current and potential subscribers.

## **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 or may buy or sell at or about the same time. 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 OptionSmart'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.

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

## **Item 12 – Brokerage Practices**

SMI publishes on the OptionSmart website a list of brokerage firms which have included OptionSmart 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 OptionSmart 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 OptionSmart 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 OptionSmart 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, if required. Such account reviews are conducted on at least an annual basis by the Chief Investment Officer.

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

As of July 10, 2012, SMI engages Mr. 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.