

## Item 1 – Cover Page

January 5, 2014

# Beneficial Investment Management

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

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This Brochure provides information about the qualifications and business practices of **Beneficial Investment Management**, an investment management 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 [contact@beneficial.com](mailto:contact@beneficial.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 January 5, 2015, is an update to the Brochure dated March 1, 2014, prepared according to the SEC's requirements and rules.

Material changes since our last updating amendment on March 1, 2014, are as follows:

1. SMI has updated its Advisory Business (Item 4) to reflect that it no longer publishes newsletters under "OptionSmart" brand.
2. SMI has updated its Advisory Business (Item 4) to reflect the latest numbers for clients' assets under management.

Pursuant to the 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 Beneficious web site <http://www.beneficious.com>

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## **Item 4 – Advisory Business**

Beneficious Investment Management is an investment management service provided by Stock Markets Institute (SMI), a Registered Investment Adviser with the Securities and Exchange Commission since 2005. SMI was incorporated in 2002 under Delaware law by Dr. Sergey Perminov, a recognized thought leader on global ETF investing and behavioral finance, who serves as the company's President and Chief Investment Officer and is the principal owner of the company.

Beneficious Investment Management specializes in Alternative Global Macro investment strategies currently offered through the Managed Accounts platform at Interactive Brokers (IB). Our objective is to deliver double-digit absolute returns, uncorrelated to equity markets, over the long term. We identify a market momentum by combining behavioral, technical and fundamental analysis, and capture the short term profits by engineering advanced trading vehicles, such as option spreads or condors on stocks, indices and ETFs.

Beneficious Investment Management does not currently tailor its advisory services to the individual needs of clients, and clients may not impose restrictions on investing in certain securities or types of securities.

SMI does not participate in wrap fee programs.

As of December 31, 2014, SMI manages approximately \$13 million of clients' assets on a discretionary basis.

## **Item 5 – Fees and Compensation**

SMI has the following fees and compensation schedule for its Beneficious Investment Management services:

- (a) An investment management fee ("Management Fee"), which will be assessed and paid by the Custodian on a daily basis based on the liquidation value of the Client's Account as of the close of business each day.
- (b) If the Client is a "qualified client", the Client shall also pay SMI a quarterly performance fee ("Performance Fee") assessed as a percent of the Net Trading Profits in the Client's Account over the Prior High Account Value. "Net Trading Profits" equals the

increase in the value of the Client's Account between the first day of the quarter (or the date the Client retains SMI, if other than the first day of a calendar quarter) and the last day of the quarter (or the date the Agreement between Client and SMI is terminated, 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 at any time in the year prior to the date the performance fee is being determined 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.

(c) All open positions shall be valued at their then market value as determined by the Custodian, which means the settlement price as determined by the exchange on which trading in that instrument is effected, or by the most recent appropriate quotation supplied by the broker or banks through which such trading is effected. If there are no trades on the date of the calculation, the position shall be valued at fair value as of the close of the then most recent trading day.

2. The fee payable to SMI will depend on whether the Client is a "qualified client" as such term is defined in SEC Rule 205-3 (a "Qualified Client").

(a) Class A clients are "qualified clients" and non-US residents. For Class A clients, the Management Fee is 1%, and the Performance Fee is 20%.

(b) Class B clients are the US residents who are not "qualified clients". For Class B clients, the Performance Fee is not charged, and the Management Fee is 4.5% for accounts using Beneficious Leveraged Momentum Diversified strategy, and 5% for accounts using Beneficious Leveraged Momentum Aggressive strategy.

Fees are debited directly from the account in accordance with the terms set forth in the Investment Advisory Agreement. As part of the billing process, the Custodian is advised of the amount of the fee to be deducted from the client's account.

SMI's fees may be subject to negotiation.

Clients also incur brokerage fees for the executed trades. SMI is not a party to its clients' agreements with their brokers and does not receive any compensation or other benefits from the brokers. Please see Item 12. Brokerage Practices for more information.

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

SMI enters into Performance and Management Fee arrangements with its Beneficial Investment Management clients (as defined in the SEC Rule 205-3), see Item 5 above.

There exists the potential for conflicts of interest to arise, such as where SMI may have an incentive to favor the accounts charged a Performance Fee. SMI is cognizant of its duty to deal fairly and equitably with all its clients irrespective of the fee arrangement that may apply to their account(s). Among ways to deal with the possibility of conflicts of interest, SMI may utilize block trading to buy or sell and then allocate securities respectively to clients across accounts.

## **Item 7 – Types of Clients**

SMI provides its Beneficial Investment Management services primarily to individuals, high net worth individuals and family offices. 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 a minimum account size of \$100,000 for the first account and \$20,000 for each additional account. Minimum account size requirement may be waived at the discretion of SMI.

Beneficial Investment Management clients need to open a dedicated account at Interactive Brokers (IB) who has its own requirements for opening or maintaining such account.

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

Beneficious Investment Management's basic investment strategy involves the early identification of global macroeconomic and investment themes. Within each theme, our proprietary trading model allows us to identify the probable vehicles to utilize to capture the market direction indicated by the theme (the likelihood of a market segment's upward, downward or neutral dynamics within one to four months). We generally identify about 8-10 investable themes per year with risk orientation of an aggressive investor. We believe that each theme has the potential to generate 5% to 20% return per investment. Investments in themes are made using specifically engineered option vehicles on ETFs tracking global, industry, and commodity and other indices, and blue chip stocks. The strategy's return has historically low correlations to other asset classes as a result of its lack of structural long or short bias and the selection of uncorrelated underlying investment themes.

Our basic investment strategy is provided to clients through two investment strategies, as follows:

**Beneficious Leveraged Momentum Diversified:** The Diversified strategy involves a maximum exposure of 25% to any given investment theme. The Diversified strategy utilizes simultaneous investments in loosely correlated short-term opportunities, thus generating lower volatility and lower correlation to other asset classes.

**Beneficious Leveraged Momentum Aggressive:** The Aggressive strategy involves a maximum exposure of 50% to any given investment theme. This allows us to allocate a significant part of the portfolio to a high-confidence investment theme, potentially increasing both the overall profitability and volatility of the strategy.

The focus of both strategies is capital appreciation, and neither strategy expects to generate any material interest or dividend income.

At any given time, neither strategy may be diversified by industry, country or company size. A limited number of holdings may comprise a significant percentage of Client's portfolio, within the parameters described above. Additionally, we typically do not liquidate positions that have increased in value in order to "rebalance" the portfolio.

We typically stay close to fully invested in its investable themes, but will sometimes hold significant percentages of cash or cash equivalents, including money market funds or

treasury securities, depending on the availability of attractive investment themes. We do not try to "time the market".

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.

We widely use option spreads to implement Beneficial trading strategies. While there are 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.

## **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 client 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 clients' investment objectives, SMI may recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which SMI and/or its clients, 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 Beneficial Investment Management clients. 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 clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Beneficial Investment Management's clients or prospective clients may request a copy of SMI's Code of Ethics by sending an email to [contact@beneficial.com](mailto:contact@beneficial.com)

## **Item 12 – Brokerage Practices**

SMI has selected Interactive Brokers (IB) as a custodian and broker for Beneficial Investment Management services. We selected Interactive Brokers because of, among other factors, their low commission costs, ease of administration, quality and speed of execution and complimentary block trade allocation services (IB aggregates orders for all client accounts, then allocate the resulting transaction to individual accounts). SMI is not a registered representative of IB and does not receive commissions or fees for recommending IB.

IB provides clients with statements and various reporting tools for their accounts.

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 broker to execute the orders; rather, SMI's clients pay the commissions and fees to execute 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 does not receive any research, products, client referrals, or other services from a broker-dealer or third party in connection with client-based securities transactions (i.e. soft dollars).

## **Item 13 – Review of Accounts**

SMI monitors its Beneficial Investment Management clients' portfolios as part of an ongoing process. Regular account reviews are conducted on at least an annual basis by the Chief Investment Officer. The review validates that the proportion of positions held on the account corresponds to the aggregated proportion of positions held on all accounts within the given investment strategy.

Clients are encouraged to contact SMI immediately with any changes to their financial situation as such changes may impact the status of their investment account(s). SMI may also contact investment advisory clients from time to time to review its previous services and/or recommendations and to discuss the impact of any changes in the client's financial situation and/or investment objectives.

Clients receive written statements from custodian. In addition, clients may receive other supporting reports from SMI.

## **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 has selected Interactive Brokers (IB) as the custodian of its Beneficial Investment Management clients' assets. SMI is only deemed to have custody of client assets for the sole purpose of debiting advisory fees (as disclosed in "Fees and Compensation" section (Item 5) of this Brochure). SMI otherwise does not (directly or indirectly) have authority to obtain possession of client funds or securities for any other purpose.

## **Item 16 – Investment Discretion**

SMI accepts discretionary authority on behalf of its Beneficial Investment Management clients to manage their securities accounts held by the Custodian.

Clients sign a Discretionary Trading Authorization/Power Of Attorney For Financial Advisor

Client grants SMI complete and unlimited discretionary trading authorization and appoints SMI as agent and attorney-in-fact with respect to the client's account. Pursuant to such authorization, SMI may in its sole discretion purchase, sell, exchange, convert, or otherwise in the securities and other investments in the client's account, as well as arrange for delivery and payment in connection with the above, and act on behalf of the client in all other matters necessary or incidental to handling the account. SMI IS NOT AUTHORIZED TO WITHDRAW ANY MONEY, SECURITIES, OR OTHER PROPERTY IN THE NAME OF THE CLIENT IN THE ACCOUNT, except for the fees described in Item 5, without consent from the client.

### **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.