

# Disclosure Brochure

March 29, 2011

## **Biltmore Capital Advisors, LLC**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Biltmore Capital Advisors, LLC (hereinafter "Biltmore Capital" or the "firm"). If you have any questions about the contents of this brochure, please contact Daniel Tyler Vernon at (888) 391-4563. 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 Biltmore Capital Advisors, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Biltmore Capital Advisors, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since Biltmore Capital's last annual update dated March 10, 2010. Biltmore Capital does not have any material changes to disclose in this Item.

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### Supervised Person Brochure Supplements

## Item 4. Advisory Business

Biltmore Capital offers wealth management services to high net worth clients, endowments and foundations. The firm prides itself on its investment strategies, client service, and ongoing commitment to bringing innovative solutions to its clients' financial lives. Biltmore Capital was founded in June 2007 and is currently owned by Daniel Tyler Vernon.

Prior to engaging Biltmore Capital to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Biltmore Capital setting forth the terms and conditions under which Biltmore Capital renders its services (collectively the "*Agreement*").

As of February 25, 2011, Biltmore Capital had \$173,098,000 of assets under management, of which \$169,279,000 of these assets were managed on a discretionary basis and \$3,819,000 were managed on a non-discretionary basis.

This Disclosure Brochure describes the business of Biltmore Capital. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Biltmore Capital's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Biltmore Capital's behalf and is subject to Biltmore Capital's supervision or control.

### Wealth Management Services

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Biltmore Capital may provides clients with wealth management services which generally includes a broad range of comprehensive financial planning and consulting services as well as discretionary and/or non-discretionary management of investment portfolios. As needed, Biltmore Capital will develop a comprehensive financial plan and/or provide ongoing financial planning services, which takes into consideration asset management, estate planning, insurance, educational planning and retirement planning.

### Other Programs

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In addition to wealth management (and as further disclosed in Item 8), Biltmore Capital may provide its clients with an option strategy program or investment in its long / short strategy. Prior to investment in any of these programs, clients will be interviewed, their goals outlined, and a program will be established to seek to meet these objectives.

### General Information

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Biltmore Capital primarily allocates clients' investment management assets among *Independent Managers* (as defined below), mutual funds, exchange-traded funds ("ETFs"), options, structured notes,

individual debt and equity securities and/or options in accordance with the investment objectives of the client. In addition, Biltmore Capital may recommend that clients who are “accredited investors” as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients’ investment objectives. Biltmore Capital also provides advice about any type of investment held in clients’ portfolios.

Biltmore Capital tailors its advisory services to the individual needs of clients. Biltmore Capital consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients’ investment needs. Biltmore Capital ensures that clients’ investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Biltmore Capital if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Biltmore Capital’s management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in Biltmore Capital’s sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

### Use of Independent Managers

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As mentioned above, Biltmore Capital recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers (“*Independent Managers*”), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between Biltmore Capital or the client and the designated *Independent Managers*. Biltmore Capital renders services to the client relative to the discretionary selection of *Independent Managers*. Biltmore Capital also monitors and reviews the account performance and the client’s investment objectives. Biltmore Capital receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When selecting an *Independent Manager* for a client, Biltmore Capital reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager*’s investment strategies, past performance and risk results to the extent available. Factors that Biltmore Capital considers in recommending an *Independent Manager* include the client’s stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client’s assets, may be exclusive of, and in addition to, Biltmore Capital’s investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by Biltmore Capital, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

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In addition to Biltmore Capital's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Biltmore Capital. In such instances, Biltmore Capital may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Item 5. Fees and Compensation

Biltmore Capital offers its services on a fee basis, which may include fixed fees, as well as fees based upon assets under management or the performance of the client's portfolio. Additionally, certain of Biltmore Capital's *Supervised Persons*, in their individual capacities, may offer securities brokerage services and insurance products under a commission arrangement.

For all services, Biltmore Capital's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Biltmore Capital does not, however, receive any portion of these commissions, fees, and costs.

### Wealth Management Fee

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Biltmore Capital provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Biltmore Capital. Biltmore Capital's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Biltmore Capital on the last day of the previous quarter. The annual fee varies (between 0.40% and 1.75%) depending upon the market value of the assets under management and the type of wealth management services to be rendered.

### Option Strategy Fee

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Biltmore Capital provides its option strategy program for either a fixed fee or asset-based fee. Biltmore Capital's option strategy program fees are negotiable, but generally range from \$7,000 to \$84,000 on a fixed fee basis, while the asset-based fee varies (between 0.65% and 1.50%), depending upon the market value of the assets under management and the type of services to be rendered. For fixed fees, the annual fee is prorated and charged quarterly, in advance. For asset-based fees, the annual fee is also prorated and charged quarterly, in advance, based on the market value of the assets on the last day of the previous quarter.

### Long / Short Strategy Fee

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Biltmore Capital may render investment management services to *qualified clients* for a performance-based fee in accordance with the requirements set forth in applicable laws, rules, and regulations. For those clients, Biltmore Capital charges a fee based upon a percentage of the market value of the assets being managed by Biltmore Capital ("*base fee*") in addition to a fee based on the performance of the account ("*performance fee*").

Biltmore Capital charges a *performance fee* of fifteen percent (15%) of the net performance of the account. Biltmore Capital also charges a *base fee* one and a quarter percent (1.25%) of the market value of the assets under management.

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Biltmore Capital's annual *base fee* is prorated and charged quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter. Biltmore Capital's *performance fee* is charged annually, in arrears, based on the net gains of the client's portfolio at the end of the calendar period.

## Negotiability of Fees

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Biltmore Capital, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

## Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Biltmore Capital generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. ("*Schwab*") and/or Pershing Advisor Solutions ("*Pershing*") for investment management accounts. Biltmore Capital may also recommend Sterling Trust Company ("*Sterling*") for custodial services for alternative investments.

Biltmore Capital may only implement its investment management recommendations after the client has arranged for and furnished Biltmore Capital with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Pershing*, *Schwab*, *Sterling*, any other broker-dealer recommended by Biltmore Capital, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers* (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Biltmore Capital's fee.

Biltmore Capital's *Agreement* and the separate agreement with any *Financial Institutions* may authorize Biltmore Capital or *Independent Managers* to debit the client's account for the amount of Biltmore Capital's fee and to directly remit that management fee to Biltmore Capital or the *Independent Managers*. Any *Financial Institutions* recommended by Biltmore Capital have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Biltmore Capital. Alternatively, clients may elect to have Biltmore Capital send an invoice for payment.



## **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between Biltmore Capital and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Biltmore Capital's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Biltmore Capital's right to terminate an account. Additions may be in cash or securities provided that Biltmore Capital reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Biltmore Capital, subject to the usual and customary securities settlement procedures. However, Biltmore Capital designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Biltmore Capital may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter that exceed \$100,000, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter.

## **Commissions or Sales Charges for Recommendations of Securities**

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Clients can engage certain persons associated with Biltmore Capital (but not Biltmore Capital) to render securities brokerage services under a commission arrangement. Clients are under no obligation to engage such persons and may choose brokers or agents not affiliated with Biltmore Capital. Under this arrangement, clients may implement securities transactions through certain of Biltmore Capital's *Supervised Persons* in their respective individual capacities as registered representatives of DeWaay Financial Network, LLC ("*DFN*"), an SEC registered broker-dealer and member of FINRA. *DFN* may charge brokerage commissions to effect these securities transactions and thereafter, a portion of these commissions may be paid by *DFN* to such *Supervised Persons*. Prior to effecting any transactions clients are required to enter into a new account agreement with *DFN*. The brokerage commissions charged by *DFN* may be higher or lower than those charged by other broker-dealers. In addition, certain of Biltmore Capital's *Supervised Persons* may also receive ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that the client maintains the mutual fund investment. Biltmore Capital recommends no-load funds.

A conflict of interest exists to the extent that Biltmore Capital recommends the purchase of securities where Biltmore Capital's *Supervised Persons* receive commissions or other additional compensation as a

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result of Biltmore Capital's recommendations. Biltmore Capital has procedures in place to ensure that any recommendations made by such *Supervised Persons* are in the best interest of clients.

For accounts covered by ERISA (and such others that Biltmore Capital, in its sole discretion deems appropriate), Biltmore Capital provides its investment advisory services on a fee-offset basis. In this scenario, Biltmore Capital may offset its fees by an amount equal to the aggregate commissions and 12b-1 fees earned by Biltmore Capital's *Supervised Persons* in their individual capacities as registered representatives of *DFN*.

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

As discussed in response to Item 5, above, Biltmore Capital may render investment management services to *qualified clients* for a performance-based fee. This fee arrangement raises conflicts of interest. The performance fee may be an incentive for Biltmore Capital to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In addition, where Biltmore Capital charges performance-based fees and also provides similar services to accounts not being charged performance-based fees, there is an incentive to favor accounts paying a performance-based fee.

Biltmore Capital has procedures in place to ensure that any recommendations made are in the best interest of clients regardless of whether the client is paying a performance-based fee or different type of fee.

## Item 7. Types of Clients

Biltmore Capital provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Account Size

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As a condition for starting and maintaining a relationship, Biltmore Capital generally imposes a minimum portfolio size of \$1,000,000. Biltmore Capital, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. Biltmore Capital only accepts clients with less than the minimum portfolio size if, in the sole opinion of Biltmore Capital, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Biltmore Capital may aggregate the portfolios of family members to meet the minimum portfolio size.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Biltmore Capital. In such instances, Biltmore Capital may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

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

### Methods of Analysis

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Biltmore Capital's primary methods of analysis are fundamental and technical.

*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. Biltmore Capital will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Biltmore Capital will be able to accurately predict such a reoccurrence.

### Investment Strategies

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Biltmore Capital customizes its asset management strategies based on individual needs and concerns of their clients. While Biltmore Capital offers each of the services described in Item 4 (above), the main focuses of the firm are its diversified portfolio management, its option strategies on concentrated stock positions, and long / short strategy.

For its option writing program, after a very detailed conversation about clients' goals, Biltmore Capital's program is implemented mainly through concentrated stock positions. The firm makes specific options trades which seek to accomplish the said goals while seeking to minimizing risk.

For its diversified portfolio management, Biltmore Capital may recommend a combination of in-house stock management and *Independent Managers* depending on the needs and goals of the client. Biltmore Capital selects securities and asset managers for the portfolio based on asset allocation decisions and what suits the client's needs and goals most appropriately. Specifically, Biltmore Capital tries to determine the mix of stock, bonds, money markets, and other investments that it feels offers the best combination of potential return and risk. At any given time, Biltmore Capital may allocate all, a portion, or none of the portfolio's assets to various areas of the stock or bond markets.

Biltmore Capital's long / short strategy follows a systematic process which seeks to capitalize on short term stock and sector fluctuations. The strategy invests primarily in the US equity markets, with a strong preference for highly liquid stocks. The strategy adds value by seeking leverage its technical and

analytical knowledge to identify the best sector and stock opportunities in the target market. The strategy consists of approximately 60-80 stocks, whose selection is primarily based on technical signals that utilize price, pattern and volume data. The long/short equity strategy targets a 60/40 ratio that is long equities, short equities or pair trades to achieve optimal risk-adjusted returns. The strategy is flexible, adopting a net long or net short position as the market dictates.

### Risks of Loss

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#### *Market Risks*

The profitability of a significant portion of Biltmore Capital's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Biltmore Capital will be able to predict those price movements accurately.

#### *Structured Notes*

Biltmore Capital may recommend an investment in, or allocate assets among, various structured notes. Structured notes are intermediate debt securities with interest payments that are determined by the performance of an underlying benchmark (e.g., interest rates, stock price, index, commodity or currency). In addition to the risks associated with the specific benchmark, structured note holders are also subject to various counterparty concerns. In this respect, the value of a structured note may be adversely impacted by a downgrade to the issuer's credit rating and/or an unwillingness or inability of the issuer to perform its contractual obligations.

#### *Options*

Options allow investors to buy or sell a security at a contracted "strike" price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

#### *Use of Independent Managers*

Biltmore Capital may recommend the use of *Independent Managers* for certain clients. Biltmore Capital will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, Biltmore Capital does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### *Use of Private Collective Investment Vehicles*

Biltmore Capital may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called “hedge funds”). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

### *Management Through Similarly Managed Accounts*

For certain clients, Biltmore Capital may manage portfolios by allocating portfolio assets among various securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, Biltmore Capital buys, sells, exchanges and/or transfers securities based upon the *investment strategy*.

Biltmore Capital's management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to Biltmore Capital's clients may be limited. As further discussed in response to Item 12B (below), Biltmore Capital allocates investment opportunities among its clients on a fair and equitable basis.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

Biltmore Capital is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Biltmore Capital does not have any required disclosures to this Item.



### Item 10. Other Financial Industry Activities and Affiliations

Biltmore Capital is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Biltmore Capital has described such relationships and arrangements below.

#### **Registered Representatives of Broker Dealer**

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As discussed above in Item 5, certain of Biltmore Capital's *Supervised Persons* are registered representatives of *DFN*.

#### **Receipt of Insurance Commission**

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Certain of Biltmore Capital's *Supervised Persons*, in their individual capacities, are also licensed insurance agents with various insurance companies, and in such capacity, may recommend, on a fully-disclosed commission basis, the purchase of certain insurance products. While Biltmore Capital does not sell such insurance products to its investment advisory clients, Biltmore Capital does permit its *Supervised Persons*, in their individual capacities as licensed insurance agents, to sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that Biltmore Capital recommends the purchase of insurance products where Biltmore Capital's *Supervised Persons* receive insurance commissions or other additional compensation.

### Item 11. Code of Ethics

Biltmore Capital and persons associated with Biltmore Capital ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with Biltmore Capital's policies and procedures.

Biltmore Capital has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Biltmore Capital or any of its associated persons. The *Code of Ethics* also requires that certain of Biltmore Capital's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Biltmore Capital's *Code of Ethics*, none of Biltmore Capital's *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Biltmore Capital's clients.

When Biltmore Capital is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Biltmore Capital is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Biltmore Capital to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, Biltmore Capital generally recommends that clients utilize the brokerage and clearing services of *Schwab*, *Pershing* and/or *Sterling*.

Factors which Biltmore Capital considers in recommending *Schwab*, *Pershing*, *Sterling*, or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab* and *Pershing* enable Biltmore Capital to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Schwab*, *Pershing*, and/or *Sterling* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by Biltmore Capital's clients comply with Biltmore Capital's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Biltmore Capital determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Biltmore Capital seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Biltmore Capital periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Biltmore Capital in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Biltmore Capital will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Biltmore Capital (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Biltmore Capital may decline a client's request to direct brokerage if, in Biltmore Capital's sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

Transactions for each client generally will be effected independently, unless Biltmore Capital decides to purchase or sell the same securities for several clients at approximately the same time. Biltmore Capital may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Biltmore Capital's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated

among Biltmore Capital's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Biltmore Capital determines to aggregate client orders for the purchase or sale of securities, including securities in which Biltmore Capital's *Supervised Persons* may invest, Biltmore Capital generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Biltmore Capital does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Biltmore Capital determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Biltmore Capital may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Biltmore Capital in its investment decision-making process. Such research generally will be used to service all of Biltmore Capital's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Biltmore Capital does not have to produce or pay for the products or services.

### **Commissions or Sales Charges for Recommendations of Securities**

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As discussed above, certain *Supervised Persons* in their respective individual capacities, are registered representatives of *DFN*. These *Supervised Persons* are subject to FINRA Rule 3040 which restricts registered representatives from conducting securities transactions away from their broker-dealer unless *DFN* provides written consent. Therefore, clients are advised that certain *Supervised Persons* may be restricted to conducting securities transactions through *DFN* unless they first secure written consent from *DFN* to execute securities transactions through a different broker-dealer. Absent such written consent or separation from *DFN*, these *Supervised Persons* are prohibited from executing securities transactions through any broker-dealer other than *DFN* under *DFN*'s internal supervisory policies. Biltmore Capital is

cognizant of its duty to obtain best execution and has implemented policies and procedures reasonably designed in such pursuit.

### **Software and Support Provided by Financial Institutions**

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Biltmore Capital may receive from *Schwab* and/or *Pershing*, without cost to Biltmore Capital, computer software and related systems support, which allow Biltmore Capital to better monitor client accounts maintained at *Schwab* and/or *Pershing*. Biltmore Capital may receive the software and related support without cost because Biltmore Capital renders investment management services to clients that maintain assets at *Schwab* and/or *Pershing*. The software and related systems support may benefit Biltmore Capital, but not its clients directly. In fulfilling its duties to its clients, Biltmore Capital endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Biltmore Capital's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Biltmore Capital's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Biltmore Capital may receive the following benefits from *Fidelity* and/or *Pershing* through their respective investment adviser divisions: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its investment adviser participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### **Item 13. Review of Accounts**

For those clients to whom Biltmore Capital provides wealth management services, Biltmore Capital monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by one of Biltmore Capital's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Biltmore Capital and to keep Biltmore Capital informed of any changes thereto. Biltmore Capital contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts.

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

Biltmore Capital is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services.

Biltmore Capital may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

In addition, Biltmore Capital is required to disclose any direct or indirect compensation that it provides for client referrals. Biltmore Capital does not provide any direct or indirect compensation for client referrals.

### Item 15. Custody

Biltmore Capital's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Biltmore Capital through such *Financial Institution* to debit the client's account for the amount of Biltmore Capital's fee and to directly remit that management fee to Biltmore Capital in accordance with applicable custody rules.

The *Financial Institutions* recommended by Biltmore Capital have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Biltmore Capital. Clients should carefully review the statements sent directly by the *Financial Institutions*.



### Item 16. Investment Discretion

Biltmore Capital may be given the authority to exercise discretion on behalf of clients. Biltmore Capital is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Biltmore Capital is given this authority through a power-of-attorney included in the agreement between Biltmore Capital and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Biltmore Capital takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

### Item 17. Voting Client Securities

Biltmore Capital is required to disclose if it accepts authority to vote client securities. Biltmore Capital does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

### **Item 18. Financial Information**

Biltmore Capital does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Biltmore Capital is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Biltmore Capital has no disclosures pursuant to this Item.

## **Biltmore Capital Advisors, LLC**

*a Registered Investment Adviser*

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Prepared by:



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