



# David Sharek.com

## 2011 Firm Brochure Form ADV Part 2

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Shareks, LLC is a Registered Investment Advisor (RIA) with the Securities and Exchange Commission (SEC). Registration of an Investment Advisor does not imply any level of skill or training.

*This brochure provides information about the qualifications and business practices of DavidSharek.com (Shareks, LLC). If you have any questions about the contents of this brochure, please contact us at [info@davidsharek.com](mailto:info@davidsharek.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 Shareks, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

**Item 2****Material Changes**

During 2008, 2009 and 2010 the firm reimbursed clients for commissions and monthly minimum fees broker-dealers (Scotttrade and Interactive Brokers) charged clients. In 2011, Shareks, LLC is adjusting its fee schedule to not-reimburse clients for commissions and minimum monthly fee broker-dealers charge.

The monetary affect to clients is small. Most commissions are \$1 per trade. Total reimbursements were approximately \$120 per account in 2010.

The main reason for this change is to avoid the time consuming task of manually going through each individual account and totaling up commissions and minimum monthly fees. This process took valuable time away from stock research and portfolio management.

Interactive Brokers (IB) has a policy that each account must spend \$10 in commissions per month, or in the following month IB charges a balance of minimum monthly fee (*located in the Other Fees section of the statement*) of \$10 minus the commissions spent.

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**Item 4                      Advisory Business**

- A. Shareks, LLC is a fee-based portfolio management firm and has been managing client accounts since 2008. The principal owner, David Sharek, owns 100% of the firm and has managed stock portfolios since 1999 when he began his career as a Financial Advisor for A.G. Edwards & Sons.
- B. Shareks specializes in building and managing Growth Stock portfolios, holding a mixture of small, medium and large cap stocks in domestic and International markets. David Sharek serves as the firm's only portfolio manager. Sharek believes corporate profits (*earnings*) ultimately drive the prices of individual stocks and has developed a system, which he believes, allows him to find tomorrow's stock market winners today.

The company has three advisory services.

- Managing growth stock portfolios on a fee basis.
  - Providing stock research on the internet for subscribers of DavidSharek.com.
  - Selling books and education materials which explain David Sharek's system of managing portfolios.
- C. Advisory services are not tailored to the individual needs of clients, although clients can buy stocks they choose and David will blend these stocks into the client's portfolio. Clients can also instruct David to sell stocks already in the portfolio, and limit purchase of certain stocks or sectors a client wishes to avoid (*i.e., gambling stocks, companies that harm the environment*).
- D. All portfolios DavidSharek.com manages are managed on a fee-basis. The firm does not charge commissions, although commissions are charged at brokerage firms (*broker-dealers*) where client accounts are held.
- E. All client accounts are managed on a discretionary basis. David Sharek is the only person with discretion over client accounts. As of December 31, 2010 the firm had \$6.3 million in assets under management (*calculation done by Advent Software*).

**Item 5                      Fees and Compensation**

- A. All client portfolios managed by DavidSharek.com are managed on a fee-basis. The advisory fee is 3% a year and is charged at a rate of 0.75% of the account value at the end of a calendar quarter. Management fees are non-negotiable.

Investors who desire to manage their own account at a broker-dealer of their choice can subscribe to DavidSharek.com at a rate of \$20 per-month or \$200 per-year.



David Sharek's book *The School of Hard Stocks* is \$30 and is sold at Amazon.com and Barnes&Noble.com.

- B. Fees are billed from each account approximately two weeks after the end of the calendar quarter.
- C. Clients will incur brokerage and transaction costs. These fees were approximately \$120 per-account in 2010. Scottrade charges commissions of \$7 per trade. Interactive Brokers is approximately \$1 per trade with a \$10 minimum commission charge each month, or the balance of the \$10 is billed the following month.
- D. Quarterly fees are billed in advance. If the client decides to move or liquidate the account during the quarter, the client is reimbursed for the remainder of the quarter, via check.
- E. No person in the firm accepts compensation for the sale of securities or other investment products.
  - 1. David Sharek has an incentive to recommend products based on a clients needs, rather than compensation received.
  - 2. Clients have the option to purchase investment products David recommends through other brokers or agents not affiliated with the firm.
  - 3. The firm does not charge clients commissions of any kind.
  - 4. The firm does not markup or down stocks to profit from the difference.

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

Not applicable. No person within the company accepts performance based fees.

## **Item 7      Types of Clients**

DavidSharek.com generally provides investment advice for business accounts and individuals, including their taxable accounts and IRAs. The minimum requirement to open an account is \$50,000.

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

- A. David Sharek believes that corporate profits (earnings) ultimately drive the prices of individual stocks and has developed a system, which he believes, allows him to find tomorrow's winners today.

David has always been intrigued by stocks that made the biggest gains. His first four years as a broker (1999-2002), he spent countless evenings researching the biggest winners of the past year, trying to spot trends — characteristics — the best stocks had. He not only wanted to know what



caused these stocks to take off to stratospheric heights, but how he could devise a way to find the future winners beforehand.

He started uncovering secrets only the smartest minds in the money management business knew; ones they shrewdly kept to themselves. Eventually, he was able to spot the pattern, or theme, many superstar stocks possessed. From Xerox (XRX) during the 1960s to Starbucks (SBUX) during the 1990s, most of the great stocks had lots in common as they trounced the market. It was as if they were all poured from the same mold.

Armed with this knowledge, David found one stock after another that “fit the mold.” and built a portfolio compiled strictly with potential superstars. He believes these are the characteristics of stocks that give investors the largest gains over extended periods of time, traits of companies that fit the mold:

1. **High Profit Growth** – The most important factor affecting the long term performance of a stock is the company's profits. In the simplest terms: stock growth follows profit growth. Over the long-run a stock's growth rate is often similar to the company's profit growth rate.
2. **Certainty** - Stocks have personalities, just like people do. Some you can trust, others you can't. Certainty means there is confidence the company will be able to make their estimated profits. An industry like healthcare has more certainty than a sector like oil, which is up-and-down due to the price of oil and the state of the economy.
3. **Consistency** – The best stocks grow profits consecutively every year. Each time annual profits are up, the company is proving its success, year after year. It's dependable, consistent. The cream of the crop companies will grow profits each year and not incur a down year in profits.
4. **Growth Opportunity** – Once the stock has passed the tests of certainty and consistency, David looks into the future and imagine how big the company will be years from now. Companies with the ability to compound in size have growth opportunity.
5. **Hot Sector** – The premier stocks often come from the best sectors at the time. These sectors often have an easier time growing profits rapidly due to forces in the economy.
6. **Below the Radar** – Many people like to own what they know, but it pays to find small, unknown stocks nobody knows about. Buying a stock before everyone else knows about it gets you in on the ground floor. Any new familiarity with the stock brings more prospective buyers. If more people want to buy the stock than sell the stock, the share price goes higher.



7. **Beat the Street** – The best stocks beat earnings estimates while making their biggest runs. They underpromise and overdeliver. These companies also raise earnings estimates after reporting last quarter's profits.
8. **P/E lower than Profit Growth** – Together, a stock that has a low P/E and high profit growth can be a powerful combination. The stock is sometimes forced up, because the company could eventually make in a year what the stock is currently selling for.

Investing in stocks involves risk of loss that clients should be prepared to bear.

B. DavidSharek.com offers two investment strategies for managed portfolios.

1. **Growth Stock Portfolio** – Most investors choose to invest in the Growth Portfolio. With a mixture of solid, steady growers and smaller, faster growing companies, the Growth Portfolio gives investors the opportunity of growth and diversity.

The Growth Portfolio is typically diversified within approximately twenty to twenty five stocks to help lower risk through diversification while giving each position enough weight that a strong winner can make a meaningful impact. Theoretically if a portfolio contains 25 stocks, each holding 4 percent of the portfolio, a stock that got cut in half would decrease the portfolio value by 2 percent. New additions to this portfolio are often 4% of the portfolio value, with larger holdings often occupying 10% to 15% of the portfolio.

The core of the Growth Portfolio is steady growers. These stocks often have had a history of growing 15 to 20 percent annually over a long period of time (3 to 5 years) and have good certainty and consistency. This portfolio also owns smaller, faster growing companies with higher risk and potential reward. Some small companies within this portfolio might not have familiar names and may not have any analysts covering them.

The Growth Portfolio is a buy-and-hold portfolio. The goal own stocks that can compound at high rates for multiple years. There is typically zero to four changes made to the portfolio each month. Additionally, David sells partial positions and adds to others.

2. **Aggressive Growth Portfolio** – The Aggressive Growth Portfolio is geared for more aggressive investors as it is a concentrated set of stocks from the Growth Portfolio.

This portfolio typically consists of eight to 12 stocks that are timely (the stocks are in a hot sector or have been moving higher) and/or have solid upside to Fair Value within the next 6 to 12 months. Since this portfolio



has a limited number of stocks, risk is greater than in the Growth Portfolio. One stock typically occupies 8% to 12% of a portfolio value, with top holdings occupying 20% or more.

This is not a trading portfolio, nor is it a buy-and hold one either. David removes a stock from this portfolio if it is sold from the Growth Portfolio, has lost its timeliness, if it is gets close to its Fair Value, or is David feels there are better prospects with another stock. There is typically zero to four changes made to the portfolio each month. Additionally, David sells partial positions and adds to others.

- C. Positions in managed portfolios are mostly domestic and International stocks. Occasionally electronic traded funds (ETFs) are purchased to overweight a particular sector or market.

DavidSharek.com also retains the right to short a sector or market, but this will not be done to make money off a declining market but to lower risk during a possible market decline. An example would be holding 80% of a portfolio in stocks and 20% in an ETF that shorts the S&P 500.

## **Item 9            Disciplinary Information**

Registered investment advisors are legally required to disclose all material facts regarding any legal or disciplinary events that are material to a client's or prospective client's evaluation of this advisory business or the integrity of management. If the firm or a management person has been involved in one of these events, it must be disclosed for ten years following the date of the event.

Neither David Sharek nor Shareks, LLC has had any disciplinary action. This is not applicable.

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

Shareks, LLC is not registered as a broker-dealer, nor does the firm deal in futures or commodities. The company and employees do not recommend or select other investment advisors for clients. There is no relationship or arrangement that could considered a material conflict of interest with clients.

## **Item 11          Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

- A. As an SEC-registered advisor, amendments under the Investment Advisors Act of 1940 require the firm to adopt a code of ethics. *"The codes of ethics must set forth standards of conduct expected of advisory personnel and address conflicts that arise from personal trading by advisory personnel."*





*Among other things, the rule requires advisers' supervised persons to report their personal securities transactions, including transactions in any mutual fund managed by the adviser." – SEC Rule 201A-1.*

- B. New additions and deletions from the Growth Portfolio are posted on DavidSharek.com in the Stock Research Section before trades are processed. Changes to the Aggressive Growth Portfolio and adjustments made to positions in either portfolio (i.e., *sell some shares, buy some more shares*) may or may not be mentioned online because any stock in the Growth Portfolio is owned by clients of DavidSharek.com.

DavidSharek.com does not

1. Buy securities from (or sell securities to) our clients.
  2. Act as a general partner in which solicits client investments outside the scope of the parameters in this brochure.
  3. Act as an investment advisor to a separate investment company.
- C. David Sharek and employees of Shareks, LLC have the ability to own the stocks our clients do. To avoid conflicts that arise in connection with personal trading, the company strictly abides by the following procedure:
1. Comments made about a stock in the Stock News section of DavidSharek.com are public. Any stock that a client, family member, employee of DavidSharek.com or David Sharek owns is mentioned at the bottom of the article in a disclosure.
  2. Client orders are processed first for changes made (both buys and sells) to portfolios.
  3. Family of David Sharek and family of employees of DavidSharek.com are processed next.
  4. Employee orders (including David Sharek's) are processed last.
  5. DavidSharek.com does not recommend securities to clients. All managed accounts are discretionary. Buy and sell rules are mentioned in Item 8.

## **Item 12      Brokerage Practices**

- A. DavidSharek.com does not hold client accounts. Client accounts are held at broker-dealers (*i.e. brokerage firms*). Broker-dealers are chosen which demonstrate a high degree of security, low prices on commissions and fees, and easy of online accessibility and customer service.

Assets (accounts) are currently held at Scottrade and Interactive Brokers. SIPC provides the first \$500,000 per customer of insurance on accounts (including \$250,000 in cash). Additional insurance for each client has been purchased by broker-dealers. *For example, as of March 23, 2011, Interactive Brokers customers receive a Lloyd's of London policy for an*



*additional \$30 million (including \$900,000 cash) subject to an aggregate limit of \$150 million.*

1. Research and Soft Dollar Benefits – Soft dollar benefits are referred to as perks a company or employee gets by forwarding business in a certain direction. Soft dollars could be in the form of paying for independent research, sending gifts or paying for trips.
    - a) DavidSharek.com does its own research and does not pay soft dollar benefits (i.e., send trades to a particular firm so they can charge out clients a commission). Clients receive a benefit of not having to pay for research, products or services outside the scope of their management fee.
    - b) There is no incentive to select or recommend a broker-dealer based on our interest.
    - c) The company interests do not cause clients to pay commissions (or markups or markdowns) higher than those charged at other broker-dealers in return for soft dollar benefits.
  2. Brokerage for Client Referrals
    - a) There is no incentive to select or recommend a broker dealer based on our interest in receiving client referrals. Our best interest is that our clients receive the best execution.
    - b) Client transactions are not forwarded to broker-dealers other than the one the client's account is held at.
  3. Directed Brokerage
    - a) David Sharek and employees of DavidSharek.com routinely recommend and request (but do not require) a client have their account held at a specific broker-dealer. There is not conflict of interest, rather to steer the client to the brokerage firm that is a best fit for their particular situation (*i.e. clients who are not computer savvy might prefer Scottrade over Interactive Brokers due to Scottrade's ease of online site and superior customer service department*).
- B. The firm does not make a practice of aggregating orders (bunching them together to process at once). This might result in a less favorable execution (*i.e. a 5000 share trade could have less commissions than one hundred 50 share trades*). David Sharek manages each account individually.



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

- A. David Sharek periodically reviews client accounts. Frequency varies; accounts could be reviewed once per day or as often as trades are made (approximately 2 to 6 times per month).
- B. Reviews are triggered when a stock is purchased or sold from the Growth Portfolio or Aggressive Growth Portfolio, when a position is partially sold or increased, or when the stock market dictates.
- C. Clients receive monthly statements from the broker-dealer the account is held at, as well as annual reports provided by DavidSharek.com which show detailed returns and account values processed with Advent Software. *Advent software double-checks accounts with broker-dealers to insure the money is really at the brokerage-firm. Independent data from Advent is available to be send to a client's financial advisor at another firm.*

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

DavidSharek.com does not pay for client referrals.

### **Item 15      Custody**

Neither Shareks, LLC, nor David Sharek, has custody of client funds.

### **Item 16      Investment Discretion**

David Sharek has discretionary authority to manage securities on behalf of clients. Clients may place limitations to this authority (*i.e., to avoid tobacco and gambling stocks*).

Clients have the freedom to make changes to their portfolio (*i.e., they can buy stocks not in the Growth Portfolio or decide to sell a stock already held in their portfolio*).

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

It is firm policy and practice to not vote proxies on behalf of clients. Clients retain the responsibility for receiving and voting proxies for any securities maintained in client portfolios.

### **Item 18      Financial Information**

DavidSharek.com does not require or solicit a payment of more than \$1,200 in fees per client six months or more in advance. Neither Shareks, LLC nor David Sharek, has declared bankruptcy.