



# 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.

**Item 3****Table of Contents**

<b>Section</b>	<b>Subject</b>	<b>Page</b>
Item 1	Cover Page	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4
Item 5	Fees and Compensation	4
Item 6	Performance-Based Fees and Side-By-Side Management	5
Item 7	Types of Clients	5
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	5
Item 9	Disciplinary Information	10
Item 10	Other Financial Industry Activities and Affiliations	10
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	10
Item 12	Brokerage Practices	11
Item 13	Review of Accounts	13
Item 14	Client Referrals and Other Compensation	13
Item 15	Custody	13
Item 16	Investment Discretion	14
Item 17	Voting Client Securities	14
Item 18	Financial Information	14
Item 19	Requirements for State-Registered Advisors	15



## 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. Please refer to Item 12 of this brochure for more information regarding our brokerage practices.
- 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.

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. When we use shorting strategies, you will need to open a margin account. See below for important risks when using buying securities on margin.

### ***Risk of Loss.***

Investing in securities involves risk of loss that you should be prepared to bear, including loss of your original principal. However, you should be aware that past performance of any security is not necessarily indicative of future results. Therefore, you should not assume that future performance of any specific investment or investment strategy will be profitable. We do not provide any representation or guarantee that your goals will be achieved. Further, depending on the different types of investments, there may be varying degrees of risk:

Market Risk. The market as a whole goes down, resulting in a decrease in the value of client investments. This is referred to as systemic risk.

Equity (Stock) Market Risk. Common stocks are susceptible to fluctuations and to volatile increases/decreases in value as their issuers' confidence or perceptions of the market change. Investors holding common stock (or common stock equivalents) of any issuer are generally exposed to greater risk than if they hold preferred stock or debt obligations of the issuer.

Company Risk. There is always a certain level of company or industry specific risk when investing in stock positions. This is referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that a company may perform poorly or that its value may be reduced based on factors specific to it or its industry (e.g., employee strike, unfavorable media attention).





ETF and Mutual Fund Risk. ETF and mutual fund investments bear additional expenses based on a pro-rata share of operating expenses, including potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities held by the ETF or mutual fund. Clients also incur brokerage costs when purchasing ETFs.

Management Risk. Your investments also vary with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our strategies do not produce the expected returns, the value of your investments will decrease.

Margin Risk – To the extent that you authorize the use of margin, and margin accounts are managed by our firm, the market value of your account and corresponding fee payable to our firm will be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin (see below), clients authorizing margin are advised of the potential conflict of interest whereby the decision to use margin will correspondingly increase the management fee paid to Shareks, LLC. Accordingly, the decision as to whether to open a margin account is left totally to the discretion of client.

A margin account may be carried by the broker/dealer of your account. The securities purchased in such an account are the broker/dealer's collateral for its loan to you.

If the securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and, as a result, a brokerage firm is required to take action, such as issue a margin call and/or sell securities or other assets in your accounts, in order to maintain necessary level of equity in the account.

It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any Margin Account that may be established as a part of our Investment Management Services and held by your broker/dealer. These risks include the following:

- You can lose more funds than you deposit in your margin account.
- The broker/dealer can force the sale of securities or other assets in your account.
- The broker/dealer can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your margin account that may be liquidated or sold to meet a margin call.
- The broker/dealer may move securities held in your cash account to your margin account and pledge the transferred securities.



- The broker/dealer can increase its “house” maintenance margin requirements at any time and are not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.

**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 be considered a material conflict of interest with clients.

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

- A. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. This fiduciary duty is considered the core underlying principle for our Code of Ethics. We strive to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. We have the responsibility to make sure that the interests of all clients are placed ahead of our own interests. Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to any services being conducted. We strive to conduct business in an honest, ethical and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to clients. This disclosure is provided as a summary of our Code of Ethics. However, if you would like our Code of Ethics in its entirety, a copy will be provided promptly upon request.
- 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**

For clients establishing a managed account, a broker-dealer recommended by Shareks, LLC will be used as the qualified custodian. Currently, Shareks, LLC requires all accounts be established through Scottrade or Interactive Brokers. Therefore, when you sign an agreement for services with Shareks, LLC, you will need to establish a brokerage account with Scottrade or Interactive Brokers if you do not already have an account at one of those platforms. Both firms are registered broker-dealers, members SIPC and FINRA,

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.

At least annually, Shareks, LLC will review alternative custodians in the marketplace for comparison to the currently used custodian, evaluating criteria such as overall expertise, cost competitiveness and financial condition. Quality of execution for custodians will be reviewed through trade journal evaluations. No single criteria will



validate nor invalidate a custodian, but rather, all criteria taken together will be used in evaluating the currently utilized custodian.

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.*

Please note that not all investment advisors require the use of a specific broker/dealer. Some investment advisors allow clients to select the broker/dealer. However, for compliance and operational efficiency purposes, we have decided to require all clients open accounts through Scottrade or Interactive Brokers when participating in our investment management program,

The decision to require Scottrade and Brokers International is based on our firm's participation in their respective institutional, independent investment advisor platforms. We are independently owned and operated and not affiliated with either company. Through each brokerage platform, we are provided with access to their institutional trading and custody services, which are typically not available to retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as they maintain a minimum amount of clients' assets on their platforms and are not otherwise contingent upon Shareks, LLC committing any specific amount of business (assets in custody or trading). Services received include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

We also receive other products and services that benefit our firm but may not benefit every client account. Some of these other products and services assist us in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmation and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of advisory fees from its clients' accounts; and assist with back-office functions; recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of our accounts. We may also receive services such as consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing.

We endeavor to act in our clients' best interests, and while the recommendation that clients maintain their assets in accounts at broker/dealer we select may be based in part on the benefits we receive from that broker/dealer; nevertheless, these products and services by facilitating our workload are also effectively benefiting our clients as well.



It should be noted that we do not receive client referrals from broker/dealers.

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. Other than the fees for our services described in Item 5 of this brochure and the benefits outlined in Item 12 of this brochure, we receive no other compensation.

### **Item 15      Custody**

Custody, as it applies to investment advisors, has been defined as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented.

We are deemed to have custody of client funds and securities whenever we are given the authority to have fees deducted directly from client accounts. However, this is the only form of custody we will ever maintain. It should be



noted that authorization to trade in client accounts is not deemed as custody by regulators.

For accounts in which we are deemed to have custody and all other accounts, we have established procedures to ensure all client funds and securities are held at a qualified custodian (for example Scottrade and Interactive Brokers) in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from Shareks, LLC. When clients have questions about their account statements, they should contact Shareks, LLC or the qualified custodian preparing the statement.

#### **Item 16      Investment Discretion**

We provide **discretionary** investment management services for client accounts. However, prior to commencing such services, we must first receive your written authorization to trade your account(s) on a discretionary basis. Our standard client services agreement sets forth discretionary authority and you must sign the agreement before we manage your account(s). Upon receiving discretionary authority, we will have the ability to determine the type of securities and the amount of securities that can be bought or sold for your portfolio without obtaining your consent for each transaction.

All clients have the ability to place reasonable restrictions on the types of Investments that may be purchased in an account. Clients may also place reasonable limitations on the discretionary power granted to our firm so long as the limitations are specifically set forth or included as an attachment to the client agreement.

#### **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. Clients will receive proxies directly from their custodian or transfer agent and such documents will not be delivered by our firm. Although we do not vote client proxies, if you have a question about a particular proxy feel free to contact me.

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

This item is not applicable to our brochure. Shareks, LLC does not require or solicit prepayment of more than \$500 in fees per client, six months or more in



advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. We have not been subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, we have not been the subject of a bankruptcy petition at any time.

**Item 19      Requirements for State-Registered Advisors**

- A. David Sharek, born in 1970, is the CEO and principal executive officer of Shareks, LLC. David obtained a Bachelors of Science in Business Administration at the State University of New York at Buffalo. Sharek started his finance career in Memphis, TN as a Financial Consultant for A.G. Edwards & Sons in 1999, and scored a 92 on the Series 7 exam. In late 2002 Sharek accepted an offer of Vice President – Investments at Wunderlich Securities to focus on managing individual stock portfolios. In his first five years as a portfolio manager, Sharek's growth stock portfolios averaged returns of 24% a year (2003-2007), more than double the market average. In 2008, registered as an investment advisor with the Securities and Exchange Commission and founded DavidSharek.com (Shareks, LLC) at 14 Wall St. From inception through 2010, Sharek's Growth Portfolio has averaged 15% a year as his Aggressive Growth Portfolio averaged 14% a year, besting the S&P 500's average of 7% a year.
- B. David Sharek is not actively engaged in outside business activities.
- C. Shareks, LLC and David Sharek do not charge performance-based fees. Performance-based fees may create an incentive for the advisor to recommend an investment that may carry a higher degree of risk to the client.
- D. David Sharek has not been involved with an arbitration claim in excess of \$2500. He has not been found liable in any of the following:
  - a. an investment or an investment related business activity;
  - b. fraud, false statement(s) or omissions;
  - c. theft, embezzlement, or wrongful taking of property;
  - d. bribery, forgery, counterfeiting or extortion; or
  - e. dishonest, unfair, or unethical practices.
- E. No management persons of the company have any relationships or arrangements with any issuer of securities.
- F. David Sharek has not been involved in any legal or disciplinary events required to be reported in this section.
- G. Other than the fees earned, as described in Item 5 of this brochure, and the benefits received from brokerage firms, as described in Item





12 of this brochure, David Sharek doesn't any other forms of compensation.

- H. David Sharek has not been the subject of any client arbitrations or similar legal disputes. Further, David Sharek has not been subject to a bankruptcy proceeding.