

Poterack Capital Advisory, Inc. Wrap Fee Brochure

# Wrap Fee Brochure

June 14, 2012

## **Poterack Capital Advisory, Inc.**

*a Registered Investment Adviser*

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This wrap fee brochure provides information about the qualifications and business practices of Poterack Capital Advisory, Inc. (hereinafter "PCA"). If you have any questions about the contents of this brochure, please contact please contact Anna Gentry at (704) 366-5776. 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 Poterack Capital Advisory, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Poterack Capital Advisory, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This section of the wrap fee brochure discusses only the material changes that have occurred since PCA's last annual update of the wrap fee brochure. PCA does not have any material changes to disclose in this Item.

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## Item 4. Services, Fees, and Compensation

The Poterack Capital Advisory, Inc. Program (the “Program”) is an investment advisory program sponsored by PCA. The Program provides clients with the ability to trade in certain investment products without incurring separate brokerage commissions or transaction charges.

To join the Program, a client must:

- (1) Complete an investor profile that describes the client’s financial needs, investment objectives, time horizon, and risk tolerance, as well as any other factors relevant to the client’s specific financial situation and any other supporting documentation the Program requires;
- (2) Complete the investment advisory wrap fee agreement (the “*Agreement*”) with PCA;
- (3) Complete a new account agreement with Charles Schwab & Co., Inc. (“*Schwab*”) or another broker dealer PCA approves for participation in the Program (“*Financial Institution*”); and
- (4) Open a securities brokerage account with the *Financial Institution* and deposit those assets designated for participation in the Program into the account.

After an analysis of any information provided by the client to PCA, PCA assists the client in developing an appropriate investment strategy for the assets in their accounts. Thereafter, all clients are encouraged to discuss their needs, goals, and objectives with PCA and to keep PCA informed of any changes thereto. PCA contacts ongoing clients at least annually to review its previous services and/or recommendations and to determine whether changes should be made to their investment strategy.

### Management of Your Portfolio

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All clients in the Program grant PCA discretionary and/or non-discretionary authority to buy, sell, and otherwise trade in the type of securities described in Item 6, below for their accounts and to liquidate previously-purchased securities that the client has transferred to their Accounts. Assets are managed by one of PCA’s investment adviser representatives.

### Fees for the Program

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Clients in the Program pay a single annualized fee for participation in the Program (the “*Program Fee*”). The *Program Fee* is prorated and charged quarterly, in arrears, based upon the market value of the assets being managed by PCA under the Program on the last day of the previous quarter. The *Program Fee* varies (between 1.00% and 2.00%) depending upon the market value of the assets under management of the client and the type of investment management services, as follows:

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>
up to \$500,000	2.00%
\$500,001 - \$1,000,000	1.50%

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\$1,000,001 - \$2,000,000

1.25%

above \$2,000,000

1.00%

PCA, in its sole discretion, may negotiate to charge a lesser *Program 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.).

### Fee Comparison

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Under the Program, clients receive both investment advisory services and the execution of transactions for a single, combined annualized fee, the *Program Fee*. Participation in the Program may cost the client more or less than purchasing such services separately. The number of transactions made in the client's accounts, as well as the commissions charged for each transaction, determines the relative cost of the Program versus paying for execution on a per transaction basis and paying a separate fee for advisory services. The *Program Fee* may be higher or lower than fees charged by other sponsors of comparable investment advisory programs.

### Other Charges

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Clients may incur certain charges imposed by third parties in addition to the *Program Fee*, charges imposed directly by a mutual fund or exchange-traded fund in the account, which is 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.

## Item 5. Account Requirements and Types of Clients

The Program participants includes individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

## Item 6. Portfolio Manager Selection and Evaluation

PCA acts as the sponsor and portfolio manager to the Program. Certain wrap programs involve the services of multiple parties in these capacities, which may involve additional conflicts of interest that the sponsor would be required to disclose in this section. PCA has no disclosures to make under this section.

## Advisory Business

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### *Financial Planning Services*

PCA may provide its clients with a broad range of comprehensive financial planning (which may include non-investment related matters). These services include retirement planning, investment planning, estate planning, insurance planning, and education planning services. PCA may charge a separate fee for these services which shall be agreed upon prior to rendering the services.

In performing its services, PCA is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. PCA may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if PCA recommends its own services. The client is under no obligation to act upon any of the recommendations made by PCA under a financial planning or consulting engagement or to engage the services of any such recommended professional, including PCA itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of PCA's recommendations. Clients are advised that it remains their responsibility to promptly notify PCA if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising PCA's previous recommendations and/or services.

### *Investment Management Services*

Clients can engage PCA to manage all or a portion of their assets on a discretionary basis.

PCA primarily allocates clients' investment management assets among mutual funds, exchange-traded funds ("ETFs"), and individual equity securities in accordance with the investment objectives of the client. PCA also provides advice about any type of investment held in clients' portfolios.

PCA also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, or other products that may not be held by the client's primary custodian. In so doing, PCA either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

PCA tailors its advisory services to the individual needs of clients. PCA consults with clients initially and on an ongoing basis to develop an investment policy statement which determines risk tolerance, time horizon and other factors that may impact the clients' investment needs. PCA ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify PCA if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon PCA's management services.

## **Performance-Based Fees and Side-by-Side Management**

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PCA does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

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

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### *Method of Analysis*

PCA's primary method of analysis is a fundamental approach. *Fundamental analysis* involves the fundamental financial condition and competitive position of a company. PCA 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.

### *Investment Strategy*

PCA will evaluate the appropriate allocation among financial instruments for each client by analyzing various factors such as the client's tolerance for volatility and potential loss, financial objectives, total net worth (excluding personal residence), income or liquidity requirements, taxable status of accounts, investment knowledge and experience, and length of time spent with the client.

Throughout the evaluation process, the client's existing allocation is reviewed. The client is asked to provide their risk tolerance on a scale of one to ten, one indicating no investment risk and ten indicating extreme investment risk. The client is then asked if their current investment allocation is consistent with their self-assessment. If the client's understanding of relative risk is not reasonably accurate, then a more thorough discussion of various financial instruments and relative risk occurs. The client is also asked if they are a conservative investor or an aggressive investor, typically during the first visit.

Clients are also questioned about their financial objectives, which are generally defined by their lifestyle, personal needs and wants require economically. Throughout PCA's evaluation process, there are many discovery questions asked over several visits to clarify these objectives.

In addition, the higher a conservative or moderate risk investor client's net worth, the more likely the client may hold higher investment risk securities their portfolio. However, the greater the client's income or liquidity requirement, the more conservatively PCA will allocate their portfolio.

When a client has both tax qualified and non-qualified accounts, PCA may invest more conservatively (i.e. interest-bearing instruments) within qualified pre-tax accounts and more aggressively (i.e. equity-based instruments) in non-qualified accounts. To improve client's tax efficiency, PCA seeks capital gains taxation on equity-based investments. PCA will hold a greater portion of the client's equity-based allocation in their non-qualified account to benefit from existing tax laws regarding capital gains and

losses. PCA may take more relative risk with Roth IRA accounts because the client retains 100% of the investment gains in exchange for accepting the investment risk. Additionally, the current tax law limits the client's ability to invest within a Roth IRA so PCA's intent would be to seek long-term, tax-free appreciation as opposed to seeking liquidity.

Until a client has fully explored their overall financial situation or provided all required documentation to PCA, the client's money will be invested more conservatively than it may be invested after the client has participated fully in the comprehensive process. PCA's initial process typically requires four to five office visits before PCA will decide to work with the client.

PCA utilizes Morningstar research in selecting mutual funds in the following categories: conservative allocation, moderate allocation, large cap, mid cap, small cap, foreign large cap, foreign small/mid cap, world allocation, emerging markets, high yield bond, multi-sector bond, and world bond. The criteria for mutual funds are no-load or load-waived, current five star rating, ten year five star rating, and Charles Schwab custodies without transaction fees.

In the event there are no mutual funds in a category that have a current and ten-year five star rating, then PCA will reduce the star rating requirement starting with the ten-year rating until the category is represented. If a client holds a mutual fund that does not meet PCA's selection criteria, then the client is made aware of the discrepancy and any tax liability of the mutual fund is liquidated. There may also be reasons that a client wants to retain a mutual fund that does not meet PCA's selection criteria, which PCA will allow.

In addition, mutual funds may be selected that do not fall into one of PCA's selection categories, based on client preference or unique need; in these circumstances, the same selection criteria will be used.

### *Risks of Loss*

#### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual funds and ETFs are subject to secondary market trading risks. Shares of mutual funds and ETFs will be listed for trading on an exchange, however, there can be no guarantee that an active trading market for such shares will develop or continue. There can be no guarantee that a mutual funds' and ETFs' exchange listing or ability to trade its shares will continue or remain unchanged. Shares of the mutual fund or ETF may trade on an exchange at prices at, above or below their most recent net asset valuation (NAV), which is the price that an investor would buy or sell the mutual fund or ETF at. The per share NAV of a mutual fund or ETF is calculated at the end of each business day, and fluctuates with changes in the market value of the mutual fund's or ETF's holdings. The trading prices of a mutual fund's or ETF's shares may differ significantly from NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's ETF's shares trading at a premium or discount to NAV.

## *Market Risks*

The profitability of a significant portion of PCA'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 PCA will be able to predict those price movements accurately.

## *Risk of Loss*

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

## **Voting of Client Securities**

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PCA is required to disclose if it accepts authority to vote client securities. PCA does not vote client securities on behalf of its clients.

## **Item 7. Client Information Provided to Portfolio Managers**

PCA acts as the sponsor and portfolio manager to the Program. Certain wrap programs involve the services of multiple parties in these capacities. In those circumstances, the sponsor is required to disclose how and what type of information about client that it provides to portfolio managers. PCA has no disclosures to make under this section.

## **Item 8. Client Contact with Portfolio Managers**

There are no restrictions on a clients' ability to contact and consult with PCA.

## **Item 9. Additional Information**

### **Disciplinary Information**

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PCA 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. PCA does not have any required disclosures to this Item.

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

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

### *Registration as Insurance Agency*

PCA is a duly licensed insurance agency. Additionally, certain of PCA's *Supervised Persons*, in their individual capacities, are licensed insurance agents with various insurance companies, and in such capacity, may recommend, on a fully-disclosed basis, the purchase of certain insurance products. A conflict of interest exists to the extent that PCA or its *Supervised Persons* recommend the purchase of insurance products where PCA or its *Supervised Persons* receive insurance commissions or other additional compensation.

### **Code of Ethics**

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

PCA 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 PCA or any of its associated persons. The *Code of Ethics* also requires that certain of PCA'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 PCA's *Code of Ethics*, none of PCA'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 PCA's clients.

When PCA 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 PCA 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 PCA to request a copy of its *Code of Ethics*.

### **Review of Accounts and General Reports**

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PCA monitors assets as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis.

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the *Financial Institutions* for assets. Participants in the Program will receive a report from PCA that may include such relevant Portfolio and/or market-related information such as an inventory of the investments in the Client's Portfolios and Portfolio performance from time to time.

### **Client Referrals and Other Compensation**

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PCA is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, PCA is required to disclose any direct or indirect compensation that it provides for client referrals.

If a client is introduced to PCA by either an unaffiliated or an affiliated solicitor, PCA may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee shall be paid solely from PCA's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to PCA by an unaffiliated solicitor, the solicitor shall provide the client with a copy of PCA's written disclosure statement which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of PCA shall disclose the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of PCA's written disclosure statement at the time of the solicitation.

### **Financial Information**

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PCA does not require or solicit the prepayment of more than \$500 in fees six months or more in advance. In addition, PCA is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. PCA has no disclosures pursuant to this Item.

## **Item 10. Requirements for State-Registered Advisers**

Neither PCA nor our management personnel have a relationship or arrangement with any issuer of securities.