

**Cape Investment Advisory, Inc.**  
**An SEC Registered Investment Adviser**

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**ADV 2A Brochure**

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This brochure provides information about the qualifications and business practices of Cape Investment Advisory, Inc. If you have any questions about the contents of this brochure, please contact us at (678) 583-1120 or [larry@capesecurities.com](mailto:larry@capesecurities.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 Cape Investment Advisory, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Being registered as an SEC Registered Investment Advisor does not imply a certain level of skill or training.

## Item 2 - Material Changes

Material Changes from December 31, 2009 – December 31, 2010 are as follows:

CIA has contracted with Envestnet and TD Ameritrade in order to increase our custodial and TPAM capabilities.

### Item 3:

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## **Item 4: Advisory Business**

Cape Investment Advisory, Inc. ("CIA" or "Sponsor"), solely owned by James R. Webb, is an SEC Registered Investment Adviser that has been in business since March 2008. CIA currently has approximately 37 million dollars under management and conducts its advisory business on a Discretionary-only basis. CIA provides investment management and financial planning services primarily to individuals, trusts and corporations. CIA derives 95% of its billing from the supervision of client investments and 5% of its billing from plan-only services.

CIA provides continuous discretionary investment advisory and account supervisory services on a fee-only basis for individuals, businesses, qualified pension and profit sharing plans, individual retirement accounts, trusts and other entities.

The process begins through personal discussions between the Investment Advisor Representative ("IAR" "or Advisor") or Independent Advisor ("Advisor") and the client to establish investment goals and gather information pertaining to the client's financial situation, objectives, time horizon and risk tolerance. This information becomes the basis for determining and constructing the investment plan/asset allocation plan which the Advisor believes best meets the client's long term stated goals.

The investment plan will contain assets in classes that CIA believes (based on historical data) will have attractive combinations of return, risk and correlation. In addition, CIA offers clients the opportunity to use services offered by third party money managers.

CIA is affiliated with Cape Securities, Inc. ("CSI"), a registered broker/dealer. Therefore, it may be common for the CIA representative to also serve as the CSI registered representative for clients' accounts.

Cape Investment Advisory does not sponsor a Wrap fee program. However Cape Investment Advisory does allow its IARs to use Wrap fee programs offered through CIAs available custodians.

### **Third Party Asset Management**

Advisor may recommend that clients engage certain Third Party Asset Managers ("TPAM") to manage all or a portion of their assets. Advisor will provide individualized advisory services to their clients through the selection of a suitable TPAM. Factors considered in the selection of a TPAM include but may not be limited to: i) the management style, performance, reputation, pricing and reporting capabilities of the TPAM; ii) the client's risk tolerance, goals and objectives, as well as investment experience; and, iii) the amount of client assets available for investment. In order to assist clients in the selection of a TPAM, the IAR will typically gather information from the client about the client's financial situation, investment objectives, and reasonable restrictions the client wants imposed on the management of the account.

Advisor will contact the client at least annually, or more often as agreed upon with each client, to review the client's financial situation and objectives, communicate information to the TPAM managing the account as warranted, and to assist the client in understanding and evaluating the services provided by the TPAM. Clients will be expected to notify their Advisor of any changes in their financial situation, investment objectives, or account restrictions.

**A complete description of the programs and services provided, the amount of total fees, the payment structure, termination provisions and other aspects of each program are detailed and disclosed in: i) the TPAM's Form ADV Part II; ii) the program wrap brochure (if applicable) or other applicable disclosure documents; iii) the disclosure documents of the portfolio manager or managers selected; or, iv) the TPAM's account opening documents. A copy of all relevant disclosure documents of the TPAM and of the individual portfolio manager(s) will be provided to anyone interested in these programs/managers.**

Compensation generally, consists of three elements: i) management and advisory fees shared by the TPAMs, CIA, and its IARs; ii) transaction costs – if applicable – which may be paid to purchase and sell such securities; and iii) custody fees. Fees are assessed by the TPAM who in turn may pay a portion of the fee to CIA for services provided. The amount and timing of these fees varies depending on the TPAM.

**Please Note: When investing in mutual funds and variable annuities, clients are strongly encouraged to review the applicable prospectus. Mutual funds and variable annuities may impose certain restrictions on the frequency, timing and dollar amount of transactions and may impose penalty fees based upon short-term trading patterns. Such restrictions may impact the services provided by a TPAM.**

#### **Financial Planning Services**

Consultations may be general in nature or may focus on particular areas of interest, at the request of the client. Where services are limited in nature, the client should understand that Advisor will be working on a limited scope and therefore may not be able to take all factors into consideration. During the time of engagement, clients are obligated to notify Advisor promptly if the client experiences a change in financial conditions in order to provide Advisor the opportunity to make changes in advice or strategies.

CIA will offer an hourly rate for a limited plan related to a specific need such as estate planning only or college funding only.

The client may choose to implement any portion or none of the plan at their sole discretion. Advisor will not provide ongoing investment management under the Financial Planning Agreement; however, clients will be able to engage Advisor to conduct a review of investment accounts on a periodic or annual basis for the hourly rate noted above.

Neither Advisor nor its related persons practice law or accounting. It is the client's responsibility to understand the need to secure the services of other professional advisors when necessary.

## **Item 5: Fees and Compensation**

### ***GENERAL FEE INFORMATION***

All advisory services can be terminated within 5 days of signing the Advisory Agreement without penalty (full refund or no fees due) when Advisor's Form ADV Part II is not delivered at least 48 hours prior to the time of engagement. Otherwise, services can be terminated at any time with written notice. If a portion of the fees were prepaid, CIA will promptly refund any unearned fees due back to the client. Financial planning services terminate automatically upon the delivery of the agreed upon services.

The advisory fee is payable quarterly in arrears. For investment management services, the initial fee is payable when the account is established, pro-rated for the first partial quarter, if any. Thereafter, fees will be payable on the last day of each calendar quarter based on the asset value of the account as of the last business day of the prior quarter. Additional deposits and withdrawals/liquidations to the account in excess of \$25,000 are subject to the same fee procedures. The aforementioned withdrawals/liquidations in excess of \$25,000 will be included in the fees on a pro-rata basis. Notwithstanding the foregoing, no advisory fees will be charged on any mutual funds, unit investment trusts or annuities transferred to the account which were purchased within the past five years if a commission was paid to the IAR in its role as a registered representative or to client's IAR at another broker dealer.

As authorized in the Advisory Agreement, the account custodian withdraws advisory fees directly from the client's account according to the custodian's policies, practices and procedures. The custodian sends the client a statement, at least quarterly, indicating all the amounts disbursed from the account including the amount of advisory fees. It is the client's responsibility, not the custodians, to verify the accuracy of the fee deduction. Since IARs of CIA can also be registered affiliates of CSI, the broker/dealer has certain supervisory and administrative duties that it is obligated to perform. As such, all or some advisory fees may be paid to CSI as paying agent for CIA. CSI will retain a portion of the advisory fee to cover the cost of such supervisory responsibilities. The custodian of the account holds all customer assets. CIA does not hold customer funds or securities. Fees are never based upon the performance of the account. Fees for financial planning services are directly billed to the client.

Clients should note that the same or similar services to those described above may be available elsewhere at a lower or higher cost to the client. Clients should consider that depending upon the level of the wrap fee charges, the amount of portfolio activity in their accounts, the value of services that are provided, and other factors, a wrap fee may exceed the aggregate cost of services if they were to be provided separately. A non-wrapped pricing arrangement may be more cost effective for accounts that do not experience frequent trading activity.

The annual fees are negotiable, do not include TPAMs fees and based on assets under management as follows:

<u>Assets</u>	<u>Max. Annual Fee</u>
0-\$250,000	2.50%
\$250,000 - \$499,000	2.25%
\$500,000 - \$999,000	2.00%
\$1,000,000 - \$2,999,000	1.75%
\$3,000,000 - \$4,999,000	1.50%
\$5,000,000 and above	1.25%

The asset-based fee is calculated at the end of the calendar quarter and is based upon the value of the account as calculated by the custodian.

Clients will be responsible for all commissions and other transaction charges and any charge relating to the custody of securities in the account. In addition, all fees paid to CIA for investment advisory services are separate and distinct from fees and expenses that may be charged by the mutual fund companies. The mutual fund fees and expenses are described in the fund's prospectus.

#### Financial Planning Fees

CIA's Advisor Representatives may offer personal financial planning services on an hourly or fixed fee basis. During the time of engagement, clients are obligated to notify Advisor promptly if the client experiences a change in financial conditions in order to provide Advisor the opportunity to make changes in advice or strategies. If changes are required, there may be additional fees involved.

Financial planning services are offered for a fixed fee, which generally range between \$500 and \$5000. The fees are negotiable and are based upon the complexity of services and agreed upon at the time of engagement. Fifty percent (50%) of the fee is due upon engagement with the remainder due upon the delivery of the plan. It is anticipated that all services will be completed within six months of engagement. Clients should note that the same or similar services to those described above may be available elsewhere at a lower or higher cost to the client. Clients who wish to terminate the planning process prior to completion may do so with written notice. Upon receipt of written notification, CIA will return a prorated amount of any prepaid fee based upon the amount of work completed prior to notification. In the event that the client agreed to pay upon completion of the plan, any earned fee will immediately become due and payable.

CIA will offer an hourly rate for a limited plan related to a specific need such as estate planning only or college funding only. This fee will be \$150.00 to \$500.00 per hour depending on the complexity of the project and will be billed on a monthly basis as services are rendered.

The client may choose to implement any portion or none of the plan at their sole discretion. Advisor will not provide ongoing investment management under the Financial Planning

Agreement; however, clients will be able to engage Advisor to conduct a review of investment accounts on a periodic or annual basis for the hourly rate noted above.

## **ITEM 6: Performance-Based Fees and Side-by-Side Management**

CIA does not use Performance-Based Fees and Side-by-Side Management. Therefore, Item 6 is not applicable to CIA's business model

## **ITEM 7: Types of Clients**

CIA provides continuous discretionary investment advisory and account supervisory services on a fee-only basis for individuals, businesses, qualified pension and profit sharing plans, individual retirement accounts, trusts and other entities.

## **CONDITIONS FOR MANAGING ACCOUNTS**

CIA generally requires a minimum relationship of \$25,000 for clients seeking investment management services. This minimum may be waived based upon a pre-existing relationship or special client circumstances at the discretion of management. CIA requires a minimum financial planning project fee of \$500.00.

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

### **PORTFOLIO CONSULTING & MANAGEMENT SERVICES**

Product recommendations may include, but are not limited to, equities, corporate debt securities, municipal bonds, mutual funds, government securities, and options. CIA directly manages and diversifies clients' portfolios based upon the client's risk profile, investment horizon, financial goals, income (current and potential), tax bracket, portfolio size, net worth and other various suitability factors. Restrictions and guidelines imposed by clients effect the composition and performance of portfolios. For this reason, performance of portfolios within the same investment objective may differ.

### **RISK OF LOSS**

There is not a security that CIA offers where performance is guaranteed. Consult your

investment advisor on your risk analysis.

## **ITEM 9: Disciplinary Actions**

CIA currently has no Disciplinary Actions.

## **ITEM 10: Other Financial Industry Activities & Affiliations**

CIA and CSI are both owned by James Webb. CSI is a general securities broker/dealer registered with the SEC, FINRA, and various state regulatory agencies. In this capacity, CSI executes trades (as agent) for a commission in mutual funds, equities, bonds, options, variable annuities and other investment products on behalf of clients, who may or may not have an advisory fee agreement with CIA. Key principals of CIA identified above under Item 6 also function as officers and/or registered principals of CSI. This relationship may create a conflict of interest, as IARs of CIA may also be receiving a commission as a registered representative of CSI for effecting securities transactions, which they recommend to clients. Advisory clients are under no obligation to effect securities transactions through CSI.

Cape Insurance Solutions, Inc. ("CIS") is a state licensed insurance agency which is under common ownership with CIA and CSI. CIS sells life and fixed annuity products and such products may be offered to clients of CIA. This relationship may create a conflict of interest, as IARs of CIA may also be receiving a commission as an agent of CIS for the sale of insurance products, which they recommend to clients. Advisory clients are under no obligation to purchase insurance products through CIS.

The executive officers of CIA spend approximately 85% of their time on advisory and brokerage related activities, they spend approximately 10% of their time on insurance related activities, with 5% of their time spent on miscellaneous activities.

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

### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

IARs of CIA may also be registered representatives with CSI, an affiliated broker/dealer. Clients are under no obligation to purchase or sell securities through CSI; however, if they



choose to implement recommendations within a financial plan, commissions may be earned in addition to any fees paid for advisory services. The receipt of commissions for recommended products could represent an incentive for the IAR to recommend products that pay a commission over other products, therefore creating a conflict of interest. Additionally, if the client implements the plan through the IAR, clients may be limited to those products or services available through CSI. Commissions earned may be higher or lower at CSI than commissions earned at other broker/dealers.

## **CODE OF ETHICS**

Our Code of Ethics holds CIA IAR's to a high ethical standard. IAR's must place the interest of the client above their own interest. Advisor will provide a copy of our Code of Ethics to any client or prospective client upon request.

## **EDUCATION & BUSINESS STANDARDS**

CIA requires IARs to have a college degree or relevant experience in a business similar or related to investment management and/or planning. In addition, IARs will be registered as required by applicable state law or statute. The IARs may also be required to obtain appropriate insurance education and licensing. Additional consideration will be given to those candidates with advance industry designations (e.g., CFP™, ChFC, PFS, etc.)

## **ITEM 12: Brokerage Practices**

### **INVESTMENT OR BROKERAGE DISCRETION**

Because costs associated with trades executed through broker-dealers other than those recommended by CIA would be passed on to the client in addition to the management fee, best execution will most likely be obtained through the recommended broker/dealer. For this reason, all transactions will generally be executed through the recommended broker/dealer, subject to CIA's duty to obtain "best execution", i.e., a price that is as favorable to clients as possible under the prevailing market conditions. CIA does not warrant or represent that commissions for transactions implemented through the recommended broker/dealer will be lower than commissions available if clients use another brokerage firm. CIA believes, however, that the overall level of services and support provided to clients by Advisor outweighs the potentially lower transactions cost available under other brokerage arrangements.

Persons associated with CIA may also be registered representatives of CSI, an affiliated broker/dealer. In general, CIA will recommend the use of CSI to clients for implementation of recommendations, provided that this recommendation is consistent with CIA's fiduciary duty to the client. This may create a conflict of interest, as CIA has business arrangements with CSI for the provision of administrative support and other investment-related services.

Any commissions or other compensation received from the implementation of these recommendations is separate and distinct from CIA's advisory fee. No client is obligated to use CSI to implement any recommended transactions.

Notwithstanding such arrangements, CIA strives to serve the best interest of our clients. As such, investments for clients are based on investment suitability for the client and whether it meets the client's investment objectives and guidelines. Furthermore, CIA uses its best efforts to obtain the most favorable net results with regard to share price, size of order, difficulty of execution, confidentiality and skill required of the broker. Clients should be aware that best execution may not necessarily be achieved if recommended transactions are placed through these individuals in their separate capacities as registered affiliates or insurance agents/brokers. In addition, CIA does not warrant or represent that commissions for transactions implemented through CSI will be lower than commissions available if clients use another brokerage firm. CIA believes, however, that the overall level of services and support provided to clients by CIA outweighs the potentially lower transactions cost that may be available under brokerage arrangements other than that offered by CIA.

CIA and CSI are both owned by James Webb. CSI is a general securities broker/dealer registered with the SEC, FINRA, and various state regulatory agencies. In this capacity, CSI executes trades (as agent) for a commission in mutual funds, equities, bonds, options, variable annuities and other investment products on behalf of clients, who may or may not have an advisory fee agreement with CIA. Key principals of CIA identified above under Item 6 also function as officers and/or registered principals of CSI. This relationship may create a conflict of interest, as IARs of CIA may also be receiving a commission as a registered representative of CSI for effecting securities transactions, which they recommend to clients. Advisory clients are under no obligation to effect securities transactions through CSI.

### **ITEM 13: Review of Accounts**

IARs will review accounts no less than annually or as agreed upon by IAR and client. Supervisory reviews will occur randomly and/or on the accounts with disproportionate losses and gains. CIA does not provide customized client statements. These statements will come from the client's respective custodian. Most of the aforementioned statements are additionally available online via the custodian's website.

### **ITEM 14: Client Referrals & Additional Compensation**

Employees of CIA may receive commissions from the sale of insurance products and services, working with various insurance companies. Sales transactions will be completed only by licensed agents. Clients are under no obligation to purchase any insurance

products and/or services through agents affiliated with CIA.

The recommended broker/dealers also makes available to CIA other products and services that benefit CIA but may not benefit its clients' accounts. Some of these other products and services assist CIA in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations 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 CIA's fees from its clients' accounts; and assist with back-office functions, recordkeeping, client reporting and/or assist in increased client communication.

#### Solicitation Arrangements

CIA is party to written agreements with certain Third-Party Asset Managers (TPAMs) under which its IARs provide personal advisory services to their clients. Such personal advisory services include: qualifying their clients for a particular TPAM as well as determining client's goals and objectives (determining risk tolerance and investment styles). In doing so, CIA may be acting as a solicitor for that TPAM. CIA and its IARs receive compensation pursuant to these agreements for introducing clients to the TPAM and for providing the aforementioned personal advisory services. This compensation is typically equal to a percentage of the investment advisory fee charged by the TPAM. Because such compensation may differ depending on the individual agreement with each TPAM, the IARs may have an incentive to recommend a particular TPAM over other TPAMs with which CIA has less favorable compensation arrangements or alternative advisory programs. Any solicitation or referral arrangements will comply with applicable laws that govern the nature of the service, fees to be paid, disclosures to clients and any necessary client consents.

CIA may enter into a solicitor agreement with an attorney or an accountant where the solicitor can receive a percentage of the client asset management fee.

#### **ITEM 15: Custody**

Advisor may recommend a broker/dealer and/or custodian. Advisor considers the full range and quality of services in placing accounts, including promptness and accuracy of execution, commission rate, operational capabilities, and the firm's financial condition to ensure compliance with Advisor's best execution policy. Generally, Advisor will recommend that client assets be held in custody at SAL Financial Services, Inc. ("Trade PMR"), National Financial (MAS), Charles Schwab Institutional or TDAmeritrade Institutional. Neither SAL Financial (Trade-PMR), National Financial Services (MAS),

TD Ameritrade Institutional nor Charles Schwab Institutional are affiliated with CIA.

CIA does not send statements to its clients. Clients receive statements from their respective custodian on a quarterly basis. Clients also have online access to their account statements via their custodian's website. CIA advises its client to review and compare their quarterly account statement, which they received in the mail, with their electronic account statement, which is available online via their respective custodian's website.

## **ITEM 16: Investment Discretion**

Clients who participate in the advisory services program are required to grant full discretionary investment authority to CIA, IAR and/or TPAM to determine the securities to be bought or sold, the amount of securities to be bought or sold and the timing of such transactions. This discretionary authority is authorized by the client when the client signs CIA's Client Advisory Services Agreement. CIA, IAR and/or TPAM can use this authority to replace a Sub-Manager. However CIA, IAR and/or TPAM will generally only use this grant of discretion to replace Sub-Managers when it deems such change to be necessary; to rebalance a Client's account as agreed between the Advisor and/or Client; and to liquidate sufficient assets to pay the advisory fee when necessary and advisable.

CIA, IAR and/or TPAM will not have the authority to withdraw funds or take custody of client funds or securities other than where the client has authorized the deduction of investment advisory fees via a qualified custodian.

## **ITEM 17: Voting Client Securities**

### **PROXY VOTING AND CLASS ACTION LAWSUITS**

CIA does not vote, nor advise clients how to vote, proxies for securities held in client accounts. CIA clients retain the right to vote the proxies of shares held in their accounts. In addition, CIA will not take any action or render any advice with respect to any securities held in any accounts that are named in or subject to class action lawsuits. CIA will, however, forward to Client any information received by CIA regarding class action legal matters involving any security held in the account.

## **ITEM 18: Financial Information**

CIA does not collect fees in advance. Therefore Item 18 is Not Applicable to CIAs business model.

### **ITEM 19: Requirements for State-Registered Advisers**

CIA is an SEC-Registered Investment Adviser