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**Item 1 – Cover Page**



## Virginia Capital Strategies, Inc.

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## March 2018

This Brochure provides information about the qualifications and business practices of Virginia Capital Strategies, Inc. If you have any questions about the contents of this Brochure, please contact us at 540.527.3700 or email to [staylor@vacapstrategies.com](mailto:staylor@vacapstrategies.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.

Virginia Capital Strategies Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. Additional information about Virginia Capital Strategies, Inc. is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 2 – Material Changes**

Since our last Brochure released February 2015 there are no specific material changes to disclose.

A copy of our Brochure may be requested by contacting Su Taylor at 540.527.3700 or email to [staylor@vacapstrategies.com](mailto:staylor@vacapstrategies.com).

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#### **Item 4 – Advisory Business**

Virginia Capital Strategies, Inc, independently owned and operated in Roanoke, VA was established in August 2001 and oversees assets of \$161,933,658 as of December 31, 2017 for clients located primarily in the Mid-Atlantic.

Stephen James Bowery, CFA, CFP and President, Virginia Capital Strategies earned his Masters of Business Administration degree from Wake Forest University in 1985 and has over 25 years experience as a Research Analyst, Portfolio Manager, Fund Manager and Client Service Officer.

Virginia Capital Strategies, Inc. provides investment management services to both institutional and retail clients. The firm analyzes securities, including mutual funds and constructs portfolios consistent with the wants and needs of our clients. The firm also provides consulting services to sponsors of defined contribution plans, which include analyzing mutual funds and providing advice regarding investment choices.

Virginia Capital Strategies, Inc may provide consulting and investment management services to Elk Hill Advisors for an agreed upon fee.

Virginia Capital Strategies may provide financial planning services. These services will generally be billed at \$150 per hour.

#### **Item 5 – Fees and Compensation**

Subject to an annual minimum fee (see below) VCS charges each client 0.75% on an annual basis.

Virginia Capital Strategies, Inc. has a minimum fee of \$5,000, although this is negotiable. For smaller accounts, this minimum fee may cause client to pay a higher rate than other clients at VCS, or higher than another advisor. The specific manner in which fees are charged is established in a client's written agreement with Virginia Capital Strategies, Inc. Virginia Capital Strategies, Inc. will generally bill its fees on a quarterly basis, in advance basis or under special circumstances, fees may be negotiated both above and below the above stated schedule. Fees are assessed only for that portion of a quarter for which services were rendered. Clients may elect to be billed directly for fees or to authorize Virginia Capital Strategies to directly debit fees from client accounts. Fees may be adjusted for material additions and withdrawals. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Services may be terminated at any time upon written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Virginia Capital Strategies, Inc's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, 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. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus.

Such charges, fees and commissions are exclusive of and are in addition to Virginia Capital Strategies, Inc's fee, and Virginia Capital Strategies, Inc. shall not receive any portion of these commissions, fees, and costs.

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

Virginia Capital Strategies, Inc. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## Item 7 – Types of Clients

Virginia Capital Strategies, Inc. provides portfolio management services to individuals, corporate pension and profit-sharing plans, trusts, estates, and charitable institutions. VCS has no minimum account size, but charge a minimum account fee.

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

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

Virginia Capital Strategies, Inc. utilizes both external and internal systems in order to design investment portfolios that meet the wants and needs of our clients. An example is Performance Checker, our proprietary model used to analyze mutual funds.

Virginia Capital Strategies, Inc. investment strategies used to implement any investment advice given to clients may include both long term purchases (securities held at least a year) and short term purchases (securities sold within a year).

- **Political Risks.** Most investments have a global component, even domestic stocks. Political events anywhere in the world may have unforeseen consequences to markets around the world.
- **General Market Risks.** Markets can, as a whole, go up or down on various news releases or for no understandable reason at all. This sometimes means that the price of specific securities could go up or down without real reason, and may take some time to recover any lost value. Adding additional securities does not help to minimize this risk since all securities may be affected by market fluctuations.
- **Currency Risk.** When investing in another country using another currency, the changes in the value of the currency can change the value of your security value in your portfolio.
- **Regulatory Risk.** Changes in laws and regulations from any government can change the value of a given company and its accompanying securities. Certain industries are more susceptible to government regulation. Changes in zoning, tax structure or laws impact the return on these investments.
- **Tax Risks Related to Short Term Trading.** Clients should note that VCS may engage in short-term trading transactions. These transactions may result in short term gains or losses for federal and state tax purposes, which may be taxed at a higher rate than long term strategies. VCS endeavors to invest client assets in a tax efficient manner, but all clients are advised to consult with their tax professionals regarding the transactions in client accounts.
- **Risks Related to Investment Term.** Securities do not follow a straight line up in value. All securities will have periods of time when the current price of the security is not an accurate measure of its value. If you require us to liquidate your portfolio during one of these periods, you will not realize as much value as you would have had the investment had the opportunity to regain its value.
- **Purchasing Power Risk.** Purchasing power risk is the risk that your investment's value will decline as the price of goods rises (inflation). The investment's value itself does not decline, but its relative value does,

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which is the same thing. Inflation can happen for a variety of complex reasons, including a growing economy and a rising money supply.

- **Business Risk.** This can be thought of as certainty or uncertainty of income. Management comes under business risk. Cyclical companies (like automobile companies) have more business risk because of the less steady income stream. On the other hand, fast food chains tend to have steadier income streams and therefore, less business risk.
- **Financial Risk.** The amount of debt or leverage determines the financial risk of a company.
- **Default Risk.** This risk pertains to the ability of a company to service their debt. Ratings provided by several rating services help to identify those companies with more risk. Obligations of the U.S. government are said to be free of default risk.
- **Margin Risk.** “Margin” is a tool used to maximize returns on a given investment by using securities in a client account as collateral for a loan from the custodian to the client. The proceeds of that loan are then used to buy more securities. In a positive result, the additional securities provide additional return on the same initial investment. In a negative result, the additional securities provide additional losses. Margin therefore carries a higher degree of risk than investing without margin. Any client account that will use margin will do so in accordance with Regulation T. VCS does not typically recommend the use of margin trading, but may utilize margin on a limited basis for clients with higher risk tolerances.
- **Short Sales.** “Short sales” are a way to implement a trade in a security VCS feels is overvalued. In a “long” trade, the investor is hoping the security increases in price. Thus in a long trade, the amount of the investor’s loss (without margin) is the amount paid for the security. In a short sale, the investor is hoping the security decreases in price. However, unlike a long trade where the price of the security can only go from the purchase price to zero, in a short sale, the price of the security can go infinitely upwards. Thus in a short sale, the potential for loss is unlimited and unknown, where the potential for loss in a long trade is limited and knowable. VCS does not typically utilize short sales, but may do so for certain clients with higher risk tolerances.
- **Transition risk.** As assets are transitioned from a client’s prior advisers to VCS there may be securities and other investments that do not fit within the asset allocation strategy selected for the client. Accordingly, these investments will need to be sold in order to reposition the portfolio into the asset allocation strategy selected by VCS. However, this transition process may take some time to accomplish. Some investments may not be unwound for a lengthy period of time for a variety of reasons that may include unwarranted low share prices, restrictions on trading, contractual restrictions on liquidity, or market-related liquidity concerns. In some cases, there may be securities or investments that are never able to be sold. The inability to transition a client’s holdings into recommendations of VCS may adversely affect the client’s account values, as VCS’s recommendations may not be able to be fully implemented.

## Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Virginia Capital Strategies, Inc. or the integrity of Virginia Capital Strategies, Inc. management. Virginia Capital Strategies, Inc. has no information applicable to this Item.

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

### **A. Broker-dealer**

Neither the principal of VCS nor any related persons are registered, or have an application pending to register, as a broker dealer.

### **B. Futures Commission Merchant/Commodity Trading VCS**

Neither the principal of VCS, nor any related persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### **C. Relationship with Related Persons**

Neither the principal nor any related persons have any material relationships to this advisory business that would present a possible conflict of interest.

### **D. Recommendations of other Advisers**

Virginia Capital Strategies, Inc. acts as a solicitor (paid referral source) to Elk Hill Advisors, Inc. (Elk Hill), an unaffiliated investment adviser. Because VCS compensated for the clients in which they refer to Elk Hill with a percentage of the fees and because Elk Hill also occasionally refers clients to VCS, there is a material conflict of interest in recommending Elk Hill to clients, as the additional compensation means VCS has a financial incentive to recommend the investment. VCS attempts to mitigate this conflict in the following ways: (i) VCS discloses the conflict to clients, who are required to sign an acknowledgement that they are aware of the compensation for the referral; (ii) VCS reviews any investment, including those which VCS receives compensation for referrals, to ensure the investment is appropriate for the client's portfolio; (iii) VCS requires all employees to acknowledge in the firm's Code of Ethics the policy of placing the client's interests ahead of the firm's, meaning in this case that unless the client should be placed in the investment regardless of any additional compensation, the client will not be recommended to the other adviser.

## **Item 11 – Code of Ethics**

A. A copy of our Code of Ethics is available upon request. Our Code of Ethics includes discussions of our fiduciary duty to clients, political contributions, gifts, entertainment, and trading guidelines.

B. Not applicable. VCS does not recommend to clients that they invest in any security in which VCS or any principal thereof has any financial interest.

C. On occasion, an employee of VCS may purchase for his or her own account securities which are also recommended for clients. Our Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in one's own account. To avoid placing a trade before a client (in the case of a purchase) or after a client (in the case of a sale), all employee trades must be pre-cleared through the Compliance Officer. All employee trades must either take place in the same block as a client trade or sufficiently apart in time from the client trade so the employee receives no added benefit. Employee statements are reviewed to confirm compliance with the trading procedures.

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D. On occasion, an employee of VCS may purchase for his or her own account securities which are also recommended for clients at the same time the clients purchase the securities. Our Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in one's own account. To avoid placing a trade before a client (in the case of a purchase) or after a client (in the case of a sale), all employee trades must be pre-cleared through the Compliance Officer. All employee trades must either take place in the same block as a client trade or sufficiently apart in time from the client trade so the employee receives no added benefit. Employee statements are reviewed to confirm compliance with the trading procedures.

## **Item 12 – Brokerage Practices**

### **A. Recommendation of a Broker-Dealer**

VCS recommends that investment accounts be held in custody by Schwab Advisor Services ("Schwab"). Schwab offers enhanced services to independent investment advisors. These services include custody of securities, trade execution platforms, and access to research not available to the general public. Schwab is wholly independent from VCS. It is expected that most, if not all, transactions in a given client account will be cleared through the custodian of that account in its capacity as a broker-dealer.

VCS recommends Schwab to its clients based on a variety of factors. These include, but are not limited to, commission costs. Schwab has what can be considered discounted commission rates. However, in choosing a broker-dealer or custodian to recommend, we are most concerned with the value the client receives for the cost paid, not just the cost. Schwab adds value beyond commission cost. Other factors that may be considered in determining overall value include speed and accuracy of execution, financial strength, knowledge and experience of staff, research and service. Schwab also has arrangements with many mutual funds that enable us to purchase these mutual funds for client accounts at reduced transaction charges (as opposed to other broker-dealers). VCS re-evaluates the use of Schwab at least annually to determine if they are still the best value for our clients.

Schwab provides us with some non-cash benefits (not available to retail customers) in return for placing client assets with them or executing trades through them. Such non-cash benefits are referred to as "soft dollars". Currently, these benefits come in the form of investment research and sponsored attendance at various investment seminars. We may also receive such items as investment software, books and research reports. These products, services, or educational seminars are items that will play a role in determining how to invest client accounts. If there is any item that has a multi-use aspect, mixed between investment and non-investment purposes, VCS will determine a reasonable allocation of investment to non-investment use and soft dollars will be allocated only to the investment portion of the product (and we will pay the remaining cost). VCS receives a benefit from these services, as otherwise we would be compiling the same research ourselves. This may cause a conflict of interest as we may want to place more client accounts with a broker-dealer/custodian such as Schwab, solely because of these added benefits. As such, VCS may have an incentive to select or recommend a broker-dealer based on interests in receiving the research or other products or services, rather than on clients' interest in receiving most favorable execution. VCS attempts to mitigate this potential conflict by performing regular reviews of execution services and value clients receive to ensure clients are receiving the best possible value for costs paid. However, the value to all of our clients of these benefits is included in our evaluation of custodians. Products and services received via soft dollars will generally be used for the benefit of all clients. However, it is possible that a given client's trades will generate soft dollars that acquire products and/or services that are not ultimately utilized for that same client's account. Soft dollars provide



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additional value, and are accordingly considered in determining which broker-dealer or custodian to utilize as part of our best execution analysis.

We do not consider whether Schwab or any other broker-dealer/custodian, refers clients to VCS as part of our evaluation of these broker-dealers.

**B. Aggregating Trades**

Commission costs per client may be lower on a particular trade if all clients in whose accounts the trade is to be made are executed at the same time. This is called aggregating trades. Instead of placing a number of trades for the same security for each account, we will, when appropriate, execute one trade for all accounts and then allocate the trades to each account after execution. If an aggregate trade is not fully executed, the securities will be allocated to client accounts on a pro rata basis, except where doing so would create an unintended adverse consequence (For example,  $\frac{1}{4}$  of a share, or a position in the account or less than 1%.)

**Item 13 – Review of Accounts**

With regard to investment management relationships, accounts are formally reviewed at least quarterly. Moreover, securities are regularly monitored and reevaluated based on changing market conditions and/or company specific events. With regard to consulting services, formal reviews are typically conducted quarterly. Mutual funds are regularly monitored and evaluated based on news reports and other pertinent information. The firm principal conducts all reviews for all Virginia Capital Strategies, Inc.'s clients. As previously noted, Performance Checker is utilized in order to evaluate mutual funds.

Investment management clients receive monthly statements reflecting asset values and all account activity. Annually or upon request, these clients receive capital gains and losses reports. Typically, consulting clients receive written reports quarterly outlining the account's asset allocation as well as a portfolio review.

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

**A. Economic Benefit Provided by Third Parties for Advice Rendered to Client**

Please refer to Item 12, where we discuss recommendation of Broker-Dealers.

**B. Compensation to Non-Advisory Personnel for Client Referrals**

If a client is introduced to VCS by either an unaffiliated or an affiliated solicitor, VCS may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Unaffiliated or affiliated solicitors will be licensed in accordance with applicable state laws. Any such referral fee shall be paid solely from VCS's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to VCS by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of the solicitor relationship, and shall provide each prospective client with a copy of VCS's ADV and a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between VCS and the solicitor, including the compensation to be received by the solicitor from VCS.

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Currently, the firm utilizes two solicitors: Elk Hill Advisor, Inc. an investment adviser registered with the Commonwealth of Virginia and Pearson Hall, Inc., a fiduciary consulting firm located in Roanoke, Virginia.

### **Item 15 – Custody**

Because we debit fees directly from client accounts, VCS has custody of assets, but would not have custody otherwise. Clients should receive at least quarterly statements from the qualified custodian that holds and maintains client's investment assets. Virginia Capital Strategies, Inc. urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

Virginia Capital Strategies, Inc. usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Virginia Capital Strategies, Inc. observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Virginia Capital Strategies, Inc. authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Virginia Capital Strategies, Inc. in writing.

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

Copies of our Proxy Voting Policies are available upon request.

From time to time, shareholders of stocks, mutual funds, exchange traded funds or other securities may be permitted to vote on various types of corporate actions. Examples of these actions include mergers, tender offers, or board elections. Clients are required to vote proxies related to their investments, or to choose not to vote their proxies. Virginia Capital Strategies, Inc. will not accept authority to vote client securities. Clients will receive their proxies directly from the custodian for the client account. Clients may contact Virginia Capital Strategies with questions about a particular solicitation.

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

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Virginia Capital Strategies, Inc. financial condition. Virginia Capital Strategies, Inc. has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.