

## Item 1 Cover Page

Part II of Form ADV

Firm Brochure

Capstone Investment Financial Group, Inc.

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This brochure provides information about the qualifications and business practices of Capstone Investment Financial Group, Inc. If you have any questions about the contents of this brochure, please contact us at (719) 477-9883 or via email at [info@capstoneinvest.com](mailto:info@capstoneinvest.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 Capstone Investment Financial Group, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

Please note that registration as an investment advisory firm does not imply a certain level of skill or training.

## **Item 2      Material Changes**

There are no material changes as this is Capstone's first filing on the new ADV Part II format.

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## Item 4      **Advisory Business**

### **About the Firm**

Capstone Investment Financial Group Inc. is a registered investment advisory firm located in Colorado Springs, Colorado. Capstone Investment Financial Group Inc. ("Capstone", "We", or the "Firm.") offers investment advisory services including investment supervisory services and financial planning to individual clients ("You.") We also manage investment companies. More information about these services and the fees associated with these services is contained in this brochure.

The Firm commenced business on September 22, 2004. Our owners are Theodore Schwartz, Timothy Lawrence and William Sigrist.

### **Description of Advisory Services**

#### ***Investment Supervisory Services***

We offer investment supervision services, which are ongoing portfolio management services based on your individual goals, objectives, time horizon and risk tolerance. Investment supervisory services include, but are not limited to, the following:

- Investment strategy
- Personal investment policy
- Asset allocation
- Asset selection
- Regular and/or continuous portfolio monitoring

When providing investment supervisory services, we evaluate your current investments with respect to your risk tolerance levels and time horizon. Capstone believes that a prudent investment strategy reacts to current market conditions and does not lock a portfolio into a fixed allocation. We are an active manager, meaning we build portfolios with the flexibility to diversify among asset classes and management styles.

Clients electing to use our investment supervisory services give us discretionary authority, meaning that based upon your investment strategy, Capstone will make decisions about the purchases and sales of securities on an ongoing basis. You will receive an Investment Policy Statement, which documents risk tolerance levels.

We tailor advisory services to your individual needs. For average net worth clients, we do so through conversations. For our higher net worth clients, we may use a tool called Money Guide Pro to help establish your goals and objectives. You may impose restrictions on investing in certain securities or types of securities.

We offer a wrap fee program, and there is no difference in how Capstone manages wrap fee accounts versus how it manages other accounts. We receive a portion of the wrap fee for our services.

Capstone manages client assets. As of 12/31/2010, its discretionary assets under management were \$41,805,567.00. As of 12/31/2010, its non-discretionary assets under management were \$218,833.00.

### ***Financial Planning Services***

We provide financial plans and financial planning services including, but not limited to, life insurance, tax concerns, retirement planning, investment planning, college planning, and debt/credit planning.

### ***Investment Companies***

We also advise investment companies, the CIFG Funds. When managing the CIFG Funds, we use advice from a sub advisor, Dunn Warren Investment Advisors, LLC.

### ***Fees for Investment Supervisory Services***

For our Investment Supervisory services, we collect an investment advisory fee based upon a percentage of Assets under Management as follows:

ASSETS UNDER MANAGEMENT	ANNUAL FEE
\$1 – \$250,000	1.10%
\$250,001 – \$1,000,000	1.00%
\$1,000,000 – \$2,000,000	0.75%
Above \$2,000,000	0.60%

These fees are negotiable and your final fee schedule is Exhibit II of the Investment Advisory Contract.

Fees for Investment Supervisory services are paid quarterly in advance and are typically debited directly from your account. In certain instances, you may elect to be billed directly and to pay quarterly fees by check. We refund any pre-paid advisory fees for accounts terminated mid-quarter. You must notify us of the account termination to receive this refund. We calculate the amount owed to you based upon the number of days remaining in the quarter. You have the right to terminate our services within five days of signing the client agreement. If you do so, you will receive a refund of all pre-paid fees.

### ***Fees for Financial Planning Services***

We charge fixed fees and hourly fees for Financial Planning Services. Depending on the complexity of the situation and your needs, the hourly fee for Financial Planning services is \$175. These fees are negotiable and the final fee schedule is Exhibit II in the Investment Advisory Contract. Fees for financial plans are paid in arrears upon completion with an initial \$500 deposit. For portfolio review there is no required deposit. The hourly fee of \$175 is charged in arrears. You have the right to terminate our services within five days of signing the client agreement. If you do so, you will receive a refund of all pre-paid fees.

### ***Fees for Investment Company Management***

We receive advisory fees as the manager of the CIFG Funds. This fee is a percentage of assets in the funds. The check includes the fees for Capstone and Dunn Warren. The fees may be waived the first year.

### ***Important information about the CIFG Funds and Existing Client Accounts***

If you opt to invest in the CIFG funds, you will receive a reduction in advisory fees. This reduction is equal to the payment to us by the Investment Company on your shares.

### ***Other Information about Advisory Fees***

You do not typically pay custodial fees and mutual fund expenses. Your trading costs are included in the Wrap Fee. You may be charged a fee for such things as margin interest, a fee for a retirement account, or a transfer fee.

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

We do not accept performance-based fees.

## **Item 7 Types of Clients**

We provide investment advice to Individuals, Investment Companies, Trusts, Estates, Corporations and other business entities.

The Firm has a minimum family of accounts value of \$25,000. We may waive this based on the complexity of the situation or your needs.

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

We offer tactical asset management, emphasizing broad diversification, but with a tactical overlay that is used for risk management. The broad diversification includes stocks, bonds, real assets, real estate investments, market neutral and absolute return strategies and cash. This is sometimes referred to as an endowment model of investing. While starting with thematic fundamental analysis, the Firm also drills down to technicals and charting before investing. After selecting investments based on the above, we maintain sell stops and monitor the moving average of assets in order to manage risk. If an investment falls below these criteria, we sell or hedge the risk of the investment.

The risk of our strategy is that clients may not fully participate in rising markets. The investments may either be in themes that underperform the benchmarks or may be diversified into lower performing asset types. Your accounts may suffer from underperformance during some time periods. The Firm believes that the risk management offered by the methodology provides you with the ability to compound their assets while potentially reducing their downside risks.

We recommend a wide variety of publicly traded securities including stocks, bonds, exchange traded funds, mutual funds, CDs, and fixed income securities. Some clients may own private partnerships but the Firm does not recommend these products as part of the typical investment portfolio management.

Investing in securities involve risk of loss that you should be prepared to bear.

Our investment methodology involves risks. The primary risks you should consider are market risk, company risk and sector risk. These primary risks are described below. Other risks include small and medium capitalization risk, ETF risks, Inverse ETF risks, mutual fund risks, and global geo-political risks.

Market risk is the risk that your investments will be worth less than when you originally invested. Markets fluctuate, causing the value of your investments to fluctuate.

Company risk is the risk that a specific company we recommend fails to perform as expected, causing a portion of your investment to be worth less than originally invested or nothing at all.

Another area of risk is the focus of your assets in securities of a particular sector. Sector risk is the possibility that securities within the same group of industries will decline in price due to sector-specific market or economic developments. If a Fund invests more heavily in a particular sector, the value of its shares may be especially sensitive to factors and economic risks that specifically affect that sector. Certain sectors are subject to greater government regulation and changes in regulatory policies for those sectors may have a material effect on the value of securities issued by companies in those sectors.

## **Item 9      Disciplinary Information**

Neither the Firm nor any of our management persons have been involved in any event that are material to a client's or prospective client's evaluation of the Firm or the integrity of its management.

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

Theodore Schwartz, Timothy Lawrence, and William Sigrist are licensed insurance agents in Colorado. From time to time, they may offer you advice on insurance products. If you elect to purchase an insurance product from one of these associates, the associate will receive customary sales compensation for these products in addition to receiving fees for the management of your other assets. This creates a conflict of interest. You are under no obligation to purchase insurance products from any associate of Capstone Investment Financial Group, Inc.

As noted in Item 4 we provide investment advice to an investment company, the CIFG Funds. Clients are solicited to invest in these funds, and this creates a conflict of interest. For more information about this conflict of interest, consult Item 4.

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

Associated persons may buy or sell for their own accounts the same securities recommended to you. Associated persons seek to ensure that they do not personally benefit from the short-term market effects of their recommendations to you and we monitor their personal trading.

Associated persons are aware of the rules regarding material non-public information and insider trading. Associated persons may also buy or sell a specific security for their own account based on personal investment considerations, which the Advisor does not deem appropriate to buy or sell for clients.

We have adopted a Code of Ethics to instruct its personnel in their ethical obligations and to provide rules for their personal securities transactions. The Firm and our personnel owe a duty of loyalty, fairness and good faith to their clients, and the obligation to adhere not only to the specific provisions of the code but also to the general principles that guide the Code. The Code covers a range of topics including general ethical principles, reporting personal securities trading, exceptions to reporting securities trading, reportable securities, initial public offerings and private placements, reporting ethical violations, distribution of the Code, review and enforcement processes, amendments to Form ADV and supervisory procedures. We will provide a copy of the Code to any client or prospective Client upon request.

We recommend investments in the CIFG funds, for which we are also the named Advisor. Due to the potential conflict with this situation, existing CIFG clients that opt to invest in the CIFG funds will receive a reduction in advisory fees equal to the payment to CIFG by the Investment Company on the client's shares.

## **Item 12     Brokerage Practices**

We do not receive any research or other products or services other than execution from a broker-dealer or third party in connection with your securities transactions. Nor do we receive any client referrals from a broker-dealer or third party.

We typically recommend TD AMERITRADE Institutional, Division of TD AMERITRADE, Inc. member FINRA/SIPC, as a custodian. The Firm chose TD Ameritrade as our main custodian because of their customer service, technology, trade execution, and low expenses to clients. They have relatively low transaction fees, no custodial fees, provide many client services free of charge, and provide and document data on best execution for our review and monitoring.

We have chosen several trading platforms to facilitate the transactions on behalf of the CIFG Funds. The decision about where to place trades is dependent upon the ability to deliver best execution.

We may "bunch" buy or sell orders for two or more clients into a single large order, and place the bunched order with a single broker or dealer for execution. We are not obligated to place all transactions on a "bunched" basis. When determining whether to "bunch" orders, we rely on the judgment of the Chief Compliance Officer (CCO) as to what course of action is likely to be fair and in the best interests of the relevant accounts on an overall basis. That is, we seek to avoid putting any client account at an advantage or disadvantage compared to our other client accounts that are buying or selling the same security.



Block trading is permitted where the following conditions are met:

Orders of two or more clients may be bunched only if CFIG has determined, on an individual basis that the securities order is:

1. In the best interests of each client participating in the order;
2. Consistent with CFIG's duty to obtain best execution; and
3. Consistent with the terms of the investment Advisory agreement of each participating client.

Where conducting a block trade, the CCO will determine the accounts that will participate, and the specific allocations in advance of the transaction. If the entire order is filled, you will receive your portion of the allocation specified on the trade ticket. All allocations are prior to the close of business on trade date. Client accounts participating in the transaction will receive the weighted average price of the security and will incur a pro-rata share of the transaction cost.

If part of the order is unfilled, the allocation is based upon an alphabetical order pre-determined with a random alphabet generator. The trading allocation is made in order based on the last name of the client using this list. This list is amended every six months. The allocation shall be made in the best interests of all the clients, taking into account all relevant factors, including, but not limited to, the size of each client's allocation, clients' liquidity needs, and previous allocations. If appropriate, we will then re-submit the trade on the following business day for completion of the balance of the order if the portfolio manager determines that the price is still advantageous for the remaining accounts.

The books and records of the Firm separately reflect, for each client for whom an order is bunched, the securities held by, purchased, and sold for that client.

## **Item 13      Review of Accounts**

We continuously review the securities in every client's account. The accounts are reviewed quarterly. Accounts are reviewed by an investment committee composed of all owners of Capstone Investment Financial Group, Inc., who are Investment Advisor Representatives.

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

We do not pay anyone for client referrals for our investment management or financial planning accounts. We do compensate wholesalers who market the CFIG Funds on our behalf.

## **Item 15      Custody**

We have custody of client assets only due to its ability to withdraw fees from customer accounts. The qualified custodian of client assets sends account statements directly to Clients. You will receive account statements from the broker-dealer or other qualified custodian. Clients should carefully review those statements.

We send clients an enhanced performance report at least annually. This report shows clients the rate of return on their investments and management fees.

## **Item 16     Investment Discretion**

For those investment supervisory accounts, we maintain a limited power of authority over your account with respect to securities to be bought and sold and amount of securities to be bought and sold.

## **Item 17     Voting Client Securities**

For its investment management accounts, Capstone does not vote proxies. This right is retained solely by the Client.

Capstone also provides investment advice to an investment company, the CIFG Funds. CIFG will vote proxies in the best interest of our Funds, Portfolios and Shareholders. In general, Capstone will vote in favor of routine proposals which do not change the structure, bylaws, or operations of a company to the detriment of the shareholders and will vote against proposals that clearly have the effect of restricting the ability of shareholders to realize the full potential value of their investment. The CIFG Funds pursue their investment goals by investing in other investment companies that are not affiliated (“Underlying Funds”) and Capstone is required to handle proxies received from Underlying Funds in a certain manner. Notwithstanding the guidelines provided in these procedures, it is our policy to vote all proxies received from the Underlying Funds in the same proportion that all shares of the Underlying Funds are voted, or in accordance with instructions received from fund shareholders, pursuant to Section 12(d)(1)(F) of the Investment Company Act.

All proxies received on behalf of the CIFG Funds are placed in a file maintained by the CCO for future reference and voted as per written policies and procedures.

Clients may receive a copy of our proxy voting policies and procedures upon request.

## **Item 18     Financial Information**

Capstone has no financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

## Supplementary Brochure

### Item 1 Cover Page

This brochure supplement provides information about Theodore Schwartz, Timothy James Lawrence, and William Sigrist that supplements our Wrap fee brochure. Please contact us at (719) 477- 9883 if you did not receive Capstone Investment Financial Group, Inc.'s brochure or if you have any questions about the contents of this supplement.

### Item 2 Educational Background and Business Experience

**Name: Theodore Schwartz**

Born: 1947

Education Background:

B.A. Duke University 1969 Psychology  
M.A. Oregon State University 1972 General Studies  
College for Financial Planning 1998 CFP

Business Background:

2004 – Present	President	Capstone Investment Financial Group, Inc
2009 – Present	IAR	Capstone Investment Financial Group, Inc
1999 – Present	Ind. Insurance Agent	
2006 - 2009	IAR	Cambridge Investment Research
1999 – 2006	IAR	Commonwealth Financial Network

**Name: Timothy James Lawrence**

Born: 1969

Education Background:

B.S. University of Wyoming, Communications

Business Background:

2006 – Present	Vice President	Capstone Investment Financial Group, Inc
2009 – Present	IAR	Capstone Investment Financial Group, Inc
2003 – Present	Ind. Insurance Agent	
2006 - 2009	Reg. Rep & IAR	Cambridge Investment Research
2003– 2006	Reg. Rep & IAR	Commonwealth Financial

**Name: William R. Sigrist**

**Born: 1962**

**Education Background:**

B.S. New Jersey Institute of Technology, 1990 Elec. Engineering

M.B.A. University of Colorado at Colorado Springs, 2005

**Business Background:**

2007– Present	Secretary	Capstone Investment Financial Group, Inc
2008 – Present	Ind. Insurance Agent	
2009 – Present	IAR/CCO	Capstone Investment Financial Group, Inc
2007 - 2009	Reg. Rep & IAR	Cambridge Investment Research
2006 – 2007	Chief of Operations	Capstone Investment Financial Group, Inc
2005 – 2006	Full-time Student	College for Financial Planning

Theodore Schwartz holds the CFP® designation. The CERTIFIED FINANCIAL PLANNER™, CFP® and federally registered CFP (with flame design) marks (collectively, the “CFP® marks”) are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. (“CFP Board”).

The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP® certification in the United States.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

- Education – Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board’s studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor’s Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board’s financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning.
- Examination – Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one’s ability to correctly diagnose financial planning issues and apply one’s knowledge of financial planning to real world circumstances.
- Experience – Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year).
- Ethics – Agree to be bound by CFP Board’s *Standards of Professional Conduct*, a set of documents outlining the ethical and practice standards for CFP® professionals.

Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

- Continuing Education – Complete 30 hours of continuing education hours every two years, including two hours on the *Code of Ethics* and other parts of the *Standards of Professional Conduct*, to maintain competence and keep up with developments in the financial planning field.
- Ethics – Renew an agreement to be bound by the *Standards of Professional Conduct*. The Standards prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board's enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

### **Item 3      Disciplinary Information**

None of our supervised persons is subject to any material legal or disciplinary event.

### **Item 4      Other Business Activities**

Please see item 9 of the Wrap fee brochure (attached) for more information about our Other Business Activities.

### **Item 5      Additional Compensation**

There are no such issues to be disclosed.

### **Item 6      Supervision**

The person responsible for supervision is William R. Sigrist. He supervises the associates by monitoring their emails, reviewing paperwork they complete, meeting with them regularly, and enforcing the Firm's Written Supervisory Procedures and Code of Ethics. You may contact him at (719) 477- 9883 with any concerns.