

16th Amendment Advisors LLC

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16th Amendment Advisors LLC

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This brochure provides information about the qualifications and business practices of 16th Amendment Advisors LLC (the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (212) 332-1600 or pbertazzoni@16thadvisors.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 16th Amendment Advisors LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

References herein to 16th Amendment Advisors LLC as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

Item 2 Material Changes

There have been no material changes made to 16th Amendment Advisors LLC's disclosure statement since last year's Annual Amendment filing on March 25, 2010.

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Item 4 Advisory Business

- A. 16th Amendment Advisors LLC (the “Adviser”) is a limited liability company formed on May 15, 2009 in the State of Delaware. The Adviser became registered as an Investment Adviser Firm in May 2009. The Adviser is principally owned by John J. Lee, Evan D. Lamp, and Richard J. McCarthy, the Adviser’s Managing Members.
- B. As discussed below, the Adviser offers advisory services to individual clients, on a discretionary basis, primarily limited to the purchase and sale of municipal securities. In addition, the Adviser may also offer private investment funds to qualified investors in accordance with the terms and conditions of each private fund’s offer documents. The Adviser **does not** provide financial planning, estate planning, insurance planning or any related or unrelated financial planning.

INVESTMENT ADVISORY SERVICES

The client can determine to engage the Adviser to provide discretionary investment advisory services on a *fee-only* basis. The Adviser’s annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under the Adviser’s management (generally between 0.20% and 0.75%) as follows:

* The Adviser, in its sole discretion, may provide investment advisory services on a fixed fee basis (**See** disclosure below)

* In the event that a client requests extraordinary services, the Adviser reserves the right to increase its management fee.

MISCELLANEOUS

Limited Consulting/Implementation Services. Although the Adviser does not hold itself out as providing financial planning, estate planning or accounting services, to the extent specifically requested by the client, the Adviser *may* provide limited consultation services to its investment management clients on investment and non-investment related matters, such as estate planning, tax planning, insurance, etc. Adviser shall not receive any separate or additional fee for any such consultation services. Neither the Adviser, nor any of its representatives, serves as an attorney, accountant, or licensed insurance agent, and no portion of the Adviser’s services should be construed as same. To the extent requested by a client, the Adviser may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute recommendation from the Adviser. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client’s responsibility to promptly notify the Adviser if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Adviser’s previous recommendations and/or services.

Fixed Fee Investment Advisory Services. The Adviser may provide investment advisory services on a *fee-only* fixed fee basis based upon **various objective and subjective factors**, including, scope of the advisory service to be provided, the complexity of the engagement, types of investments, and in the event of a non-discretionary engagement, the dollar amount of any recommended transaction. The terms and conditions of any such engagements shall be set forth in an Investment Advisory Agreement between the Adviser and the client. **Please Note:** Adviser's affected fixed fee clients could pay different fees based upon these subjective factors, which services could be available from other advisers at lower fees.

Client Obligations. In performing its services, Adviser shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify the Adviser in writing if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Adviser's previous recommendations and/or services.

Disclosure Statement. A copy of the Adviser's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement*. Any client who has not received a copy of Adviser's written Brochure at least 48 hours prior to executing the *Investment Advisory Agreement* shall have five business days subsequent to executing the agreement to terminate the Adviser's services without penalty.

Sub-Advisory Arrangements. The Adviser may engage sub-advisors for the purpose of assisting the Adviser with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by the Adviser. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by the Adviser. The Adviser shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions concerning the Adviser's sub-advisory arrangements.**

Affiliated Private Funds. The Adviser's affiliate, 1861 Capital Management LLC ("1861"), an SEC registered investment adviser, serves as the investment manager to certain affiliated private investment funds. 1861 Capital Partners LLC serves as the General Partner of 1861 Capital Fund LP and 1861 Capital Master Fund LP. (all funds together the "*affiliated funds*") (the complete description of the terms, conditions, risks and fees [including incentive compensation associated with each of the *affiliated funds* is set forth in each *affiliated funds* offering documents). Adviser, on a non-discretionary basis, may recommend that qualified clients consider allocating a portion of their investment assets to the *affiliated funds*. Adviser's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

Please Note: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private

investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Conflict Of Interest. Because the Adviser and/or its affiliate can earn compensation from the *affiliated private funds* (both management fees and incentive compensation) that may exceed the fee that the Adviser would earn under its standard asset based fee schedule referenced in Item 5 below, the recommendation that a client become an investor in an *affiliated private fund* presents a **conflict of interest**. No client is under any obligation to become a Fund investor. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions regarding this conflict of interest.**

Please Also Note: Valuation. In the event that Adviser references private investment funds owned by the client on any supplemental account reports prepared by the Adviser, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original purchase price.

- C. The Adviser shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Adviser shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on the Adviser's services.
- D. The Adviser currently does not participate in a wrap fee program.
- E. As of February 1, 2011, the Adviser had \$59,535,460 in assets under management on a discretionary basis.

Item 5 Fees and Compensation

- A. The client can determine to engage the Adviser to provide discretionary investment advisory services on a *fee-only* basis.

INVESTMENT ADVISORY SERVICES

If a client determines to engage the Adviser to provide discretionary investment advisory services on a *fee-only* basis, the Adviser's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under the Adviser's management (generally between 0.20% and 0.75%) as follows:

* The Adviser, in its sole discretion, may provide investment advisory services on a fixed fee basis (**See** disclosure below)

* In the event that a client requests extraordinary services, the Adviser reserves the right to increase its management fee.

- B. Clients may elect to have the Adviser's advisory fees deducted from their custodial account. Both Adviser's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of the Adviser's investment advisory fee and to directly remit that management fee to the Adviser in compliance with regulatory procedures. In the limited event that the Adviser bills the client directly, payment is due upon receipt of the Adviser's invoice. Generally, the Adviser shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous month.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Adviser shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Adviser's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). At the discretion of the Adviser, individual fixed-income and/or equity transactions may be effected through broker-dealers with whom Adviser and/or the client have entered into arrangements for prime brokerage clearing services, including effecting certain client transactions through other SEC registered and FINRA member broker-dealers (in which event, the client generally will incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by *Schwab*).
- D. Adviser's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous month. The Adviser generally requires a minimum asset level of \$1,000,000 for investment advisory services. The Adviser, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum asset requirement 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, negotiations with client, etc.).

The *Investment Advisory Agreement* between the Adviser and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, the Adviser shall refund the prorated portion of the advanced advisory fee paid based upon the number of days remaining in the billing month.

- E. Neither the Adviser, nor its representatives accept compensation from the sale of securities or other investment products.

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

Rule 205-3 of the Investment Advisers Act of 1940 permits a registered investment adviser to enter into a performance fee agreement with certain sophisticated clients who have the capacity to bear the potential additional risks of such a fee arrangement. An adviser can rely on Rule 205-3 only if the performance fee agreement is with "eligible" clients. Eligible clients are defined in the Rule as natural persons and companies that have *either* at least \$750,000.00 under management with the Adviser immediately after entering into a performance fee agreement *or* a net worth at the time the agreement is entered into in excess of \$1.5 Million (i.e. a natural person's net worth may include assets held jointly with a spouse).

Consistent with the parameters of Rule 205-3 of the Investment Advisers Act of 1940 (to the extent Rule 205-3 is applicable), the Adviser (and/or Adviser's affiliated entities) may also receive, both for managed accounts and for its *affiliated private investment funds*, incentive or performance fee compensation on a fully disclosed written basis. Because Adviser and its representatives manage client accounts that charge both an asset-based fee and/or a performance based fee, this arrangement creates a **conflict of interest**, as Adviser and its representatives have an incentive to favor investments where Adviser receives both an asset-based fee and a performance fee. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions regarding this conflict of interest.**

Item 7 Types of Clients

The Adviser's clients shall generally include individuals, business entities, trusts, estates and charitable organizations. The Adviser generally requires an annual minimum asset level of \$1,000,000 for investment advisory services. The Adviser, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum asset requirement 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, negotiations with client, etc.).

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

- A. The Adviser may utilize the following methods of security analysis:
- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)
 - Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
 - Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)

The Adviser may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)

- Short Sales (contracted sale of borrowed securities with an obligation to make the lender whole)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)
- Futures
- Swaps
- Tender Option Bond Trusts (TOBs)
- Forward Rate Agreements

Please Note: Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Adviser) will be profitable or equal any specific performance level(s). In fact, a client may lose some or all of their investment.

- B. The Adviser's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis the Adviser must have access to current/new market information. The Adviser has no control over the dissemination rate of market information; therefore, unbeknownst to the Adviser, certain analyses may be compiled with outdated market information, severely limiting the value of the Adviser's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Adviser's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but may incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, the Adviser may also implement and/or recommend – short selling, use of margin, and/or options transactions. Each of these strategies has a high level of inherent risk. (See discussion below).

Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage

in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please Note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by the Adviser in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to the Adviser may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential *conflict of interest* whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to the Adviser. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by the Adviser shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by the Adviser is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Adviser, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Currently, the Adviser primarily allocates client investment assets among various debt (municipal bonds) and private investment funds on a discretionary basis in accordance with the client's designated investment objective(s). (See Affiliated Private Funds disclosure above).

In addition, for certain clients, the Adviser may seek to generate attractive returns through trading of bonds, the trading of residual certificates ("Residual Certificates") of tender option bond trusts ("Tender Option Bond Trusts") backed by municipal bonds and the trading of synthetic positions in municipal bonds, along with the use of various hedging and trading strategies. Residual Certificates of Tender Option Bond Trusts are economically leveraged positions in the underlying bonds held by the trust. Synthetic positions in municipal bonds refer to vehicles such as BMA or MMD swaps that have a price performance that mimic those of long-term municipal bonds. The Adviser will also take short-term positions in a variety of taxable and municipal securities, commercial paper and money market funds.

Depending on the type of account, the Adviser may utilize various hedging strategies designed to offset interest rate risk. As discussed above, depending on the type of account, the Adviser may also utilize some amounts of margin financing. The Adviser may purchase shares of closed-end municipal bond and exchange traded funds in the secondary market.

Item 9 Disciplinary Information

The Adviser has not been the subject of any disciplinary actions.

Item 10 Other Financial Industry Activities and Affiliations

- A. Neither the Adviser, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Adviser, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

C.

- 3. **Other Investment Adviser Firm** As previously disclosed, the Adviser is affiliated with *1861*, an SEC registered investment advisor firm. The Adviser and *1861* share the same principal offices, management and personnel. The Adviser provides sub-advisory services to *1861*, as disclosed at Item 4.B. Also, as disclosed in Item 4.B, *1861* is the investment manager to certain of the *affiliated private funds*. The Adviser may refer certain clients to *1861* for advisory services. No client is under any obligation to engage the services of *1861*. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

Conflict of Interest: The recommendation of the Adviser or its representatives that a client purchase an ownership interest in the *affiliated private funds* presents a ***conflict of interest***, as compensation to be received by the Adviser and/or *1861* may provide an incentive to recommend the *affiliated private funds*, rather than on a particular client's need. **Adviser's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s). The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above conflicts of interest.**

- D. The Adviser does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. The Adviser maintains an investment policy relative to personal securities transactions. This investment policy is part of Adviser's overall Code of Ethics, which serves to establish a standard of business conduct for all of Adviser's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Adviser also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Adviser or any person associated with the Adviser.

- B. As disclosed above, the Adviser has a financial interest in the *affiliated private funds*. The Adviser, on a non-discretionary basis, may recommend that qualified clients consider allocating a portion of their investment assets to the *affiliated private funds*. The terms and conditions for participation in the *affiliated private funds*, including management and incentive fees, conflicts of interest, and risk factors, are set forth in the fund's offering documents. Adviser's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

- C. The Adviser and/or representatives of the Adviser *may* buy or sell securities that are also recommended to clients. This practice may create a situation where the Adviser and/or representatives of the Adviser are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Adviser did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of the Adviser's clients) and other potentially abusive practices.

The Adviser has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Adviser's "Access Persons". The Adviser's securities transaction policy requires that an Access Person of the Adviser must provide the Chief Compliance Officer or his/her designee with a written report of the their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date the Adviser selects; provided, however that at any time that the Adviser has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. The Adviser and/or representatives of the Adviser *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Adviser and/or representatives of the Adviser are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11 C, the Adviser has a

personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Adviser's Access Persons.

Item 12 Brokerage Practices

- A. In the event that the client requests that the Adviser recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Adviser to use a specific broker-dealer/custodian), Adviser generally recommends that investment management accounts be maintained at *Schwab*. Prior to engaging Adviser to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Adviser setting forth the terms and conditions under which Adviser shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Adviser considers in recommending *Schwab* (or any other broker-dealer/custodian to clients) include historical relationship with the Adviser, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Adviser's clients shall comply with the Adviser's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Adviser determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Adviser will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Adviser's investment management fee. The Adviser's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Adviser may receive from *Schwab* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist the Adviser to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Adviser may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Adviser in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist the Adviser in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Adviser to manage and further develop its business enterprise.

Adviser's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by the Adviser to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

2. The Adviser does not receive referrals from broker-dealers.
3. The Adviser does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Adviser will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Adviser. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Please Note: In the event that the client directs Adviser to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Adviser.

The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that the Adviser provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Adviser decides to purchase or sell the same securities for several clients at approximately the same time. The Adviser may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Adviser's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Adviser shall not receive any additional compensation or remuneration as a result of such aggregation.

Item 13 **Review of Accounts**

- A. For those clients to whom Adviser provides investment supervisory services, account reviews are conducted on an ongoing basis by the Adviser's Principal and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise the Adviser in writing of any changes in their investment objectives and/or financial situation.
- B. The Adviser *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Adviser may also provide a written periodic report summarizing account activity and performance.

Item 14 **Client Referrals and Other Compensation**

- A. As referenced in Item 12.A.1 above, the Adviser may receive an indirect economic benefit from *Schwab*. The Adviser, without cost (and/or at a discount), may receive support services and/or products from *Schwab*.

Adviser's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by the Adviser to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

- B. If a client is introduced to the Adviser by either an unaffiliated or an affiliated solicitor, Adviser *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. Any such referral fee shall be paid solely from the Adviser's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to the Adviser by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of the Adviser's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between the Adviser and the solicitor, including the compensation to be received by the solicitor from the Adviser.

Item 15 Custody

The Adviser shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Adviser may also provide a written periodic report summarizing account activity and performance.

Please Note: To the extent that the Adviser provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Adviser with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of the Adviser's advisory fee calculation.

Item 16 Investment Discretion

The client can determine to engage the Adviser to provide investment advisory services on a discretionary basis. Prior to the Adviser assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming the Adviser as the client's attorney and agent in fact, granting the Adviser full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Adviser on a discretionary basis may, at anytime, impose restrictions, **in writing**, on the Adviser's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Adviser's use of margin, etc.).

Item 17 Voting Client Securities

- A. Unless the Adviser agrees otherwise in writing, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Unless the Adviser agrees otherwise in writing to vote client proxies, clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Adviser to discuss any questions they may have with a particular solicitation.

Item 18 Financial Information

- A. The Adviser does not solicit fees of more than \$1,200, per client, six months or more in advance.

- B. The Adviser is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Adviser has not been the subject of a bankruptcy petition.

ANY QUESTIONS: The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.