

# GRAVITY CAPITAL PARTNERS, LLC.



Gravity Capital Partners, LLC  
6400 S. Fiddler's Green, Suite 1900 | Greenwood Village, CO 80111  
**Phone.** (970) GRAVITY | **Direct Line.** (970) 372 0393

This brochure provides information about the qualifications and business practices of Gravity Capital Partners, LLC. ("GCP"). If you have any questions about the contents of this brochure, please contact us at 970 GRAVITY or [info@gravityinvestments.com](mailto:info@gravityinvestments.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 GCP also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2. Material Changes .....**

None to report.

### **Item 3. Table of Contents .....**

Item 1. Cover .....	
Item 2. Material Changes .....	
Item 3. Table of Contents .....	
Item 4. Advisory Business .....	
Item 5. Fees and Compensation .....	
Item 6. Performance-Based Fees and Side-By-Side Management .....	
Item 7. Types of Clients .....	
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	
Item 9. Disciplinary History .....	
Item 10. Other Financial Industry Activities and Affiliations .....	
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ....	
Item 12. Brokerage Practices .....	
Item 13. Review of Accounts .....	
Item 14. Client Referrals and Other Compensation .....	
Item 15. Custody .....	
Item 16. Investment Discretion .....	
Item 17. Voting Client Securities .....	
Item 18. Financial Information .....	
Voluntary Disclosure of Personal Investments .....	

In performing its services, GCP shall not be required to verify any information received from the advisor or institution. GCP may recommend and/or engage the services of other professionals for implementation purposes.

GCP offers investment management and investment supervisory services for a fee based on a percentage of assets under management. These services include security selection, investment analysis, allocation of investments, rebalancing and ongoing monitoring services for the portfolio. GCP also offers institutional consulting services centered on risk management.

GCP will rebalance the model periodically, as it deems appropriate, to meet the client's objectives. GCP typically does not trade the portfolios, but instead notifies the adviser of the trade allocations for execution. Rebalances are also typically handled by the adviser once the rebalance specifications are given to the Advisor by GCP. Advisers and institutions are advised and expected to understand that GCP's past performance is not a guarantee of future results and that certain market and economic risks exist that may adversely affect a model's performance. Losses in capital could result in those models.

GCP's clients include other third party investment advisers whereby GCP acts as the sub-advisor. In such relationships, GCP will not directly manage the primary adviser's clients' accounts and the primary adviser will be responsible for determining which of the models the clients are invested in.

GCP acts as a model manager, third party strategist, sub-advisor, overlay manager or institutional risk management consultant in different scenarios.

GCP is agnostic and objective to the selection of any Broker Dealer or Custodian. We are not affiliated with any Broker Dealer or Custodian. We receive no compensation for or from any broker dealer. We are non conflicted and unbiased.

**Assets under Management as of December 30, 2010**

Discretionary: \$111,000,000

Non-Discretionary: \$0

## **Item 5. Fees and Compensation .....**

### **General Fee Information**

GCP's fee includes compensation for the advisory and consulting services provided by GCP and other account-related services. There is no redemption, exit fees or transaction fees charged by GCP.

In addition, all fees paid to GCP for investment advisory services are separate from any fees and expenses charged to shareholders of any mutual fund shares or mutual fund companies. A complete explanation of the expenses charged by the mutual fund is contained in each fund's prospectus.

The fees for accounts are based on an annual percentage of assets under management. The fee is applied to the account asset value on a pro-rated basis, billed either monthly or quarterly in either arrears or preferably in advance, depending on what is negotiated in the agreement. The initial fee will be based upon the date the account is accepted for management by execution of the investment advisory contract by GCP. Thereafter, the fee will be based on the market value of the account on the last day of the previous calendar quarter and will cover the period from the first day of the calendar quarter through the last day of the calendar quarter. The market value will be determined as reported by the adviser's Custodian. The Adviser will report the assets to GCP. Fees are assessed on all assets under management, including securities, cash and money market balances. Margin debit balances do not reduce the value of assets under management.

Fees may vary based on the size of the account, number of model portfolios provided, complexity of the portfolios, extent of activity in the account or other reasons agreed upon by GCP and the advisory client. Fees will generally range between .25% and .75%. The negotiated fees are disclosed in the agreement between GCP and the client.

Either GCP or the client (only after 12 months following practice conversion), upon written notice from the terminating party or the other party, may terminate the client agreement. If the client agreement is terminated prior to the last day of the calendar quarter, and the fees were billed in advance, a prorated portion of the fee paid for that quarter based on the number of days remaining would be refunded to the advisor or investor as appropriate.

The Sub-advisory contracts provide termination provisions with or without cause within given stipulated time periods (though only after 12 months following practice conversion). Upon termination, the advisor is responsible for monitoring the portfolio in the accounts, and GCP as investment adviser will have no further obligation to act or advise with respect to those assets.

## **Item 6. Performance-Based Fees and Side-By-Side Management**

### ***Performance-Based Fees***

Gravity Capital Partners does not currently charge performance fees.

### **Account Valuation Practices**

We use account market values to calculate investment performance and client fees where applicable; therefore, it is important for us to maintain policies and procedures regarding such practices. An overview of our practices is outlined below.

We use pricing information provided by the designated Custodian (our “Primary Pricing Source”) for purposes of valuing client accounts and for investment performance calculation purposes. Unless otherwise directed by the client, we use pricing information provided by the Primary Pricing Source for fee billing purposes.

Discrepancies between our valuations and valuations of other sources are researched and settled on a case by case basis.

There are inherent conflicts of interest present when valuing client accounts as we have an incentive for security prices to be high to increase market values thereby increasing assets under management (“AUM”) and fees. Further, because clients pay different fees based on differing fee schedules and/or the size of the account, we have an incentive to favor those accounts or clients where we earn the highest fees.

As discussed in Item 5 above, we charge our clients solely asset-based fees, or a combination of asset-based and/or consulting based fees. Because we utilize both fee structures, our portfolio managers may be responsible for accounts and/or strategies which charge both asset-based and/or consulting-based fees. Such arrangements create an incentive for us to favor the asset-based fee accounts over consulting based fees in order to earn the highest possible compensation. We maintain investment, trade allocation and account valuation (including fair valuation) policies and procedures designed to address such conflicts of interest. In addition, performance dispersion is reviewed by portfolio management, our performance team and compliance.

## **Item 7. Types of Clients .....**

GCP provides investment sub advisory services to registered advisors, institutions, fund companies, pension and profit sharing plans, corporations, charitable/non-profit organizations, and government entities. GCP maintains a clientele of strictly professional investors. These clients receive standard client reporting, pay fees, are not directly involved in our day-to-day operations and may have little knowledge of our trading or investment activities. We maintain investment, trade allocation and account valuation policies and procedures designed to address such conflicts of interest. Further, our Code of Ethics and Personal Trading Policy (“Code”) requires employees to report investments in any funds we may manage. All sub advisory clients are required to enter into an investment management agreement with us prior to us providing any services. We generally prefer to manage advisor accounts with a minimum of \$10 million in assets; minimums may be subject to negotiation though our standard policy is to sub advise on the entire practice under best efforts conversion.



**Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .** GCP manages several main strategies as discussed below all centered on Diversification Weighting®. GCP specializes in True Diversification®. When the True Diversification® process is followed the resulting portfolio is said to be Diversification Weighted®. Our method of analysis can accommodate any asset class, investment product, and investment strategy or investment belief. We manage portfolio models that are tactical or strategic, active or passive, discretionary or systematic.

Our model investments may be either designed to serve as an investor's entire wealth or a specific component thereof.

Our model portfolios are typically customized to the Investment firm we work with. However, we do maintain certain lists of securities that taken individually or collective form a favorable probability in satisfying the objectives designated for a model. Our lists are subject to monitoring in the context of the process depicted later in this section. Lists may be inherited (creating a Diversification Weighted® model of an existing index) or provided by clients who have domain expertise in security selection in various market niches. A variety of our available lists follows;

## True Diversification® Model Matrix

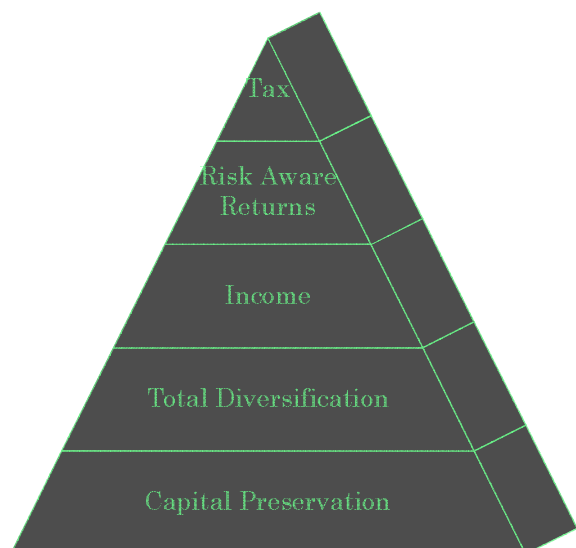
### **Core Portfolio Lists**

Defensive Core  
Core Income  
Equity Income  
Global Balance  
Core Growth  
Top 40 Equity  
Global Equity  
FundaQuant Equity

### **Satellite / Overlay Lists**

Strategic Alpha  
Tactical Alpha  
Select Equity

As an illustrative example to construct a model portfolio we typically designate a portfolio based on a hierarchy of objective. Such as;



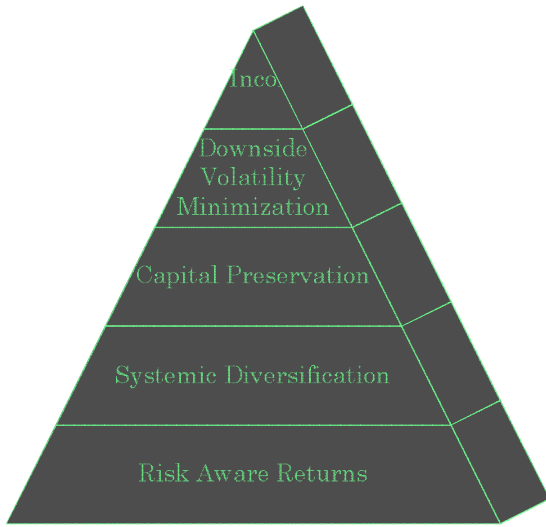
In this pyramid, the lower levels depict a more important consideration which we manifest in the portfolio construction process.

Two examples of model portfolio are provided below:

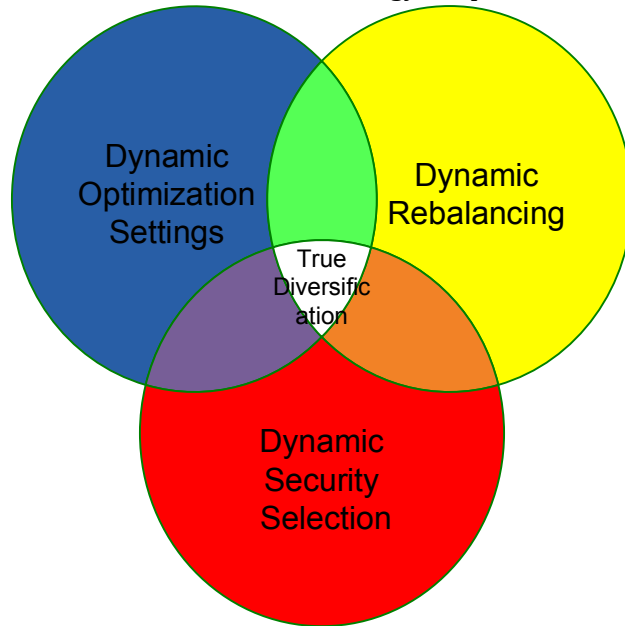
#### DIVERSIFICATION WEIGHTED™ GLOBAL BALANCE

The global balanced portfolio is a dynamically and tactically selected universe of investments designed with a strong emphasis on consistent and high levels of total diversification, especially systematic diversification.

Objective Hierarchy:



Strategy Snapshot:

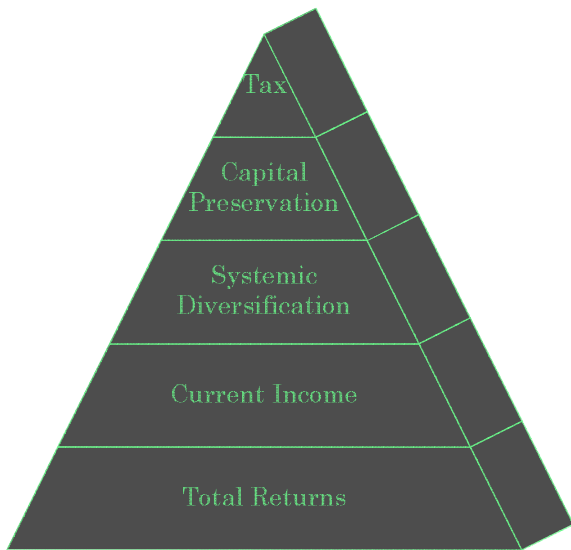


This is a global diversification portfolio architecture designed for total risk adjusted performance with absolute performance as the close secondary objective. The model is actively managed and maintains high levels of diversification. The beta components represent the core of the portfolio and include an actively managed balance of fixed income, international equities or funds and the domestic core equity. The core is designed to invest in attractive, longer term, funds designed to capture favorable market developments expected over the next few years. The portfolio is also subject to ongoing thesis adjustment and monitoring and will discard investments no longer in accord with current expectations. Positions manifesting expectations are harvested with discipline. Redundancy is removed from the portfolio leaving only the most efficient combination of assets to produce total returns consistent with strong diversification. The fund may invest in liquid investments around the world and is otherwise unconstrained.

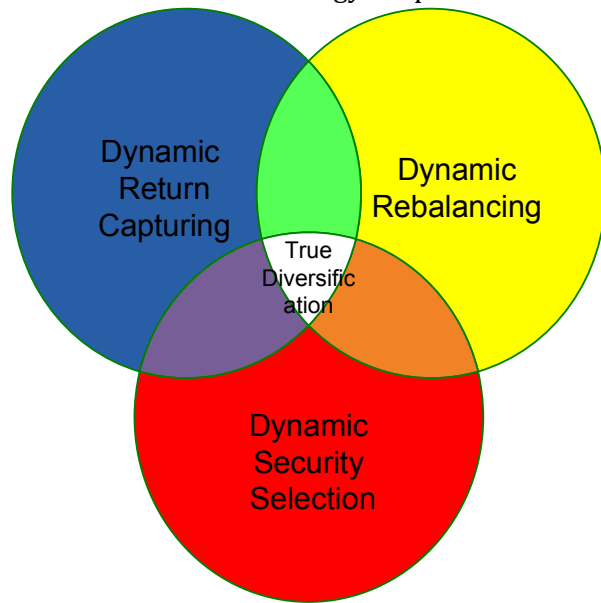
#### DIVERSIFICATION WEIGHTED™ INCOME MODEL

Portfolio is designed to produce current income from a variety of sources. There is no volatility target, however, the portfolio will maintain strong levels of systemic risk diversification and avoid concentration of income sources. The portfolio should be regarded as tax aware, but tax is a distant objective to income, total return, capital preservation and diversification.

Objective Hierarchy:



Strategy Snapshot:

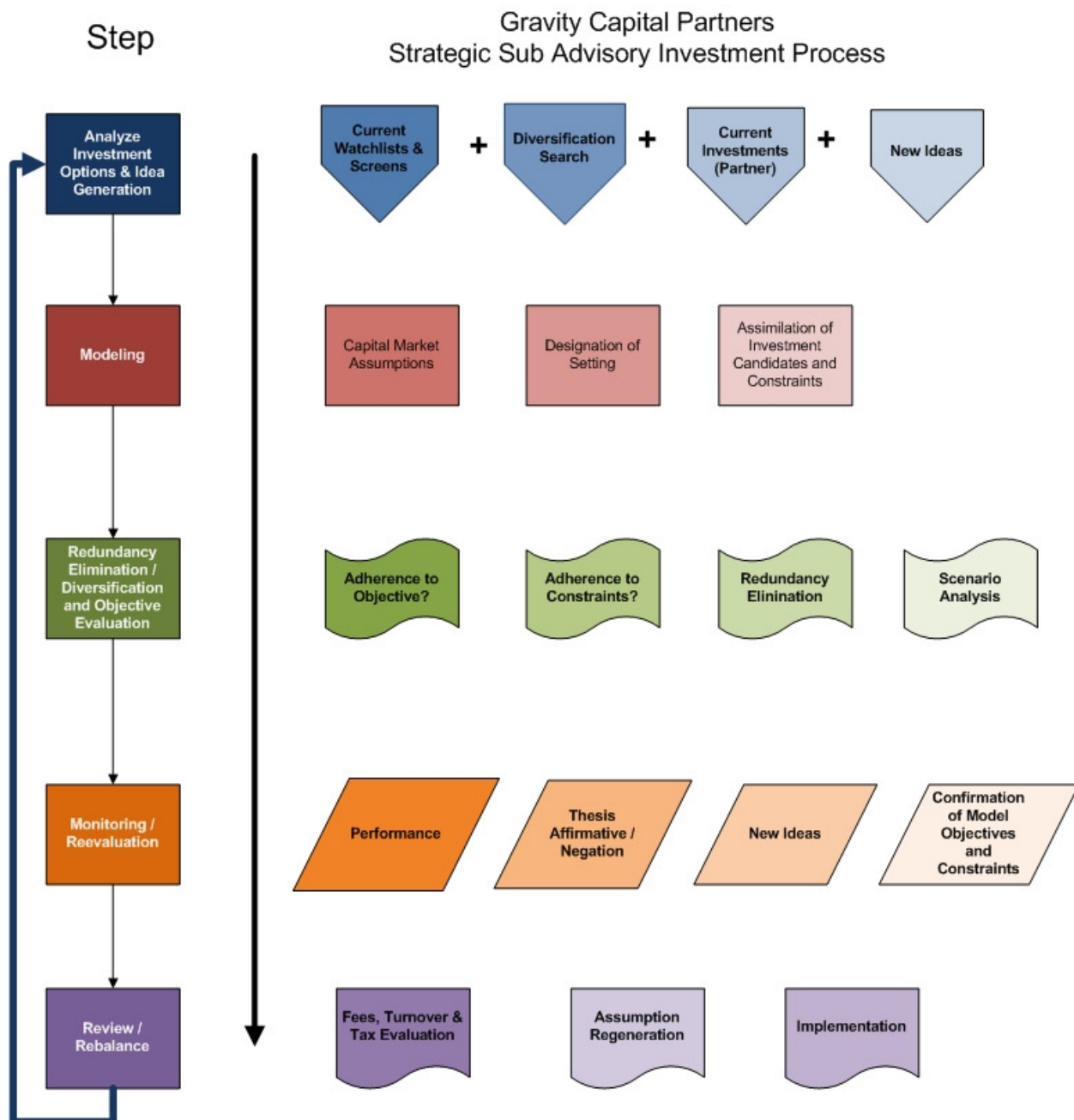


---

Invests in stocks, preferred stocks, bond ETF's, bond mutual funds and other liquid investments, with an emphasis on income. The source of the income will vary depending on market conditions and assessment. The portfolio may be more or less exposed in the market at any time, but generally seeks to achieve high levels of allocations sufficient to satisfy the objective.

---

Based on our proprietary logic we create custom model portfolios that generally conform to the following process. For any particular client relation or model various steps or elements may be shared, omitted or designated as the responsibility of our client or a third party.



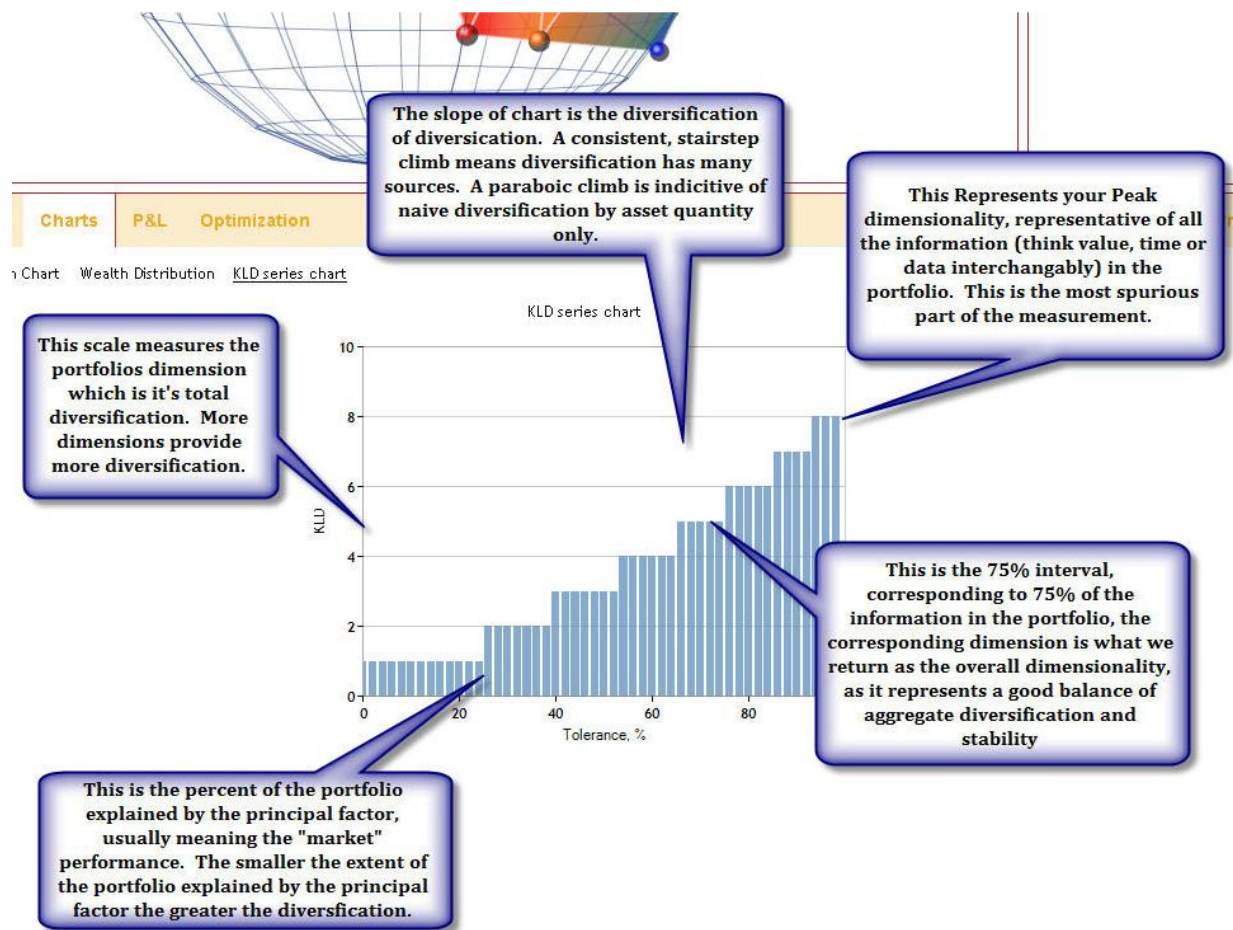
## Risk Management

The creation and practice of this investment process does not protect investors from risk. While GCP is unique in our view of risk because of our knowledge of diversification, neither diversification or a sound investment process will necessarily protect portfolios from loss or protect against losing investments.

We tend to define risk with the most grave interpretations. We do not associate more risk with more return, but believe that risk is the antagonist to returns.

Diversification measurement, optimization, visualization and search are catalytic to reducing risk in a portfolio, especially systematic and non-systematic risks. Contrary to academic theory based on compounding assumptions, we firmly believe that systemic risk may be diversified. We analyze and manage system risk in model portfolios by seeking to minimize the exposure of a portfolio to principal risk factors and/or dimensionality..

An illustration of this analysis follows. The methodology and graphics are patent pending.



Substantive risks that are not impacted by True Diversification® include operational risk and behavioral risk. The impact of True Diversification® on liquidity risk, interest rate risk, and event risks is difficult to predict and will vary with the particular model and investment options.

Additional risks which may be collectively categorized as investment risks are, stock risk, sector risk, country risk, foreign exchange risk, etc. A portfolio's unique exposure to such risks will typically be diversified and such risks are deliberately assumed by the portfolio manager or investment committee.

All portfolio models are analyzed based on various diversification and risk measures.

## **Other Information**

GCP does not offer any products or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices or investment products. We may invest in securities issued by clients who are publicly-held companies for other client accounts that through our investment process we have determined are appropriate investments for our clients. Although this practice occurs infrequently, it creates a conflict of interest when it does occur. Our Code describes our fiduciary duty to act in the best interest of our clients and we have investment policies and procedures in place to support this fiduciary duty. Further, our adherence to a process for determining allocation greatly reduces the potential for such a conflict. Certain securities overlap across strategies which could potentially create an opportunity for us to favor one strategy over another. We believe that our firm's current assets under management are vastly insufficient to create sufficient market impact for such potential conflicts of interest to materialize. As our firm grows we will continually review and revise our policies should any such potential conflict require additional policies and management.

GCP advocates to all clients the evangelism of diversification and a diversification centric orientation for client meetings and communications.

## **Research Resources**

Gsphere is our proprietary optimization and analytic platform for building and analyzing portfolios.

Our security selection is a product of internal research, collaboration with clients, discretionary sector and industry factor models, quantitative fundamental, valuation and return estimation models.

GCP utilizes research produced by our sister company, Gravity Investments which produced various research products since 2000. GCP may assimilate research produced by academic journals and our network or industry thought leaders and academics if such research product can be validated and integrated in to our diversification centric process.

## **Item 9. Disciplinary History .....**

No principal or employee of Gravity Capital Partners has any disciplinary actions or adverse history with any securities or financial regulatory body.

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

All Principal Executive Officers are also affiliated with Gravity Investments, LLC, the leader in Diversification Intelligence, a leader in financial engineering, innovative investment products and technologies. Gravity Investments, LLC developed Gsphere, a patented software program used in the investment industry. Gsphere is currently the only method to precisely measure and quantify True Diversification® or Diversification Weighting® of any given portfolio. Servicing over 100 financial institutions and impacting tens of billions of dollars, Gsphere, is used to research, produce and promote diversification-based investment strategies, including Diversification Weighted® fund products. Gravity Investments has several patents, both issued and pending for diversification optimization, diversification visualization, diversification measurement, and diversification search.

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

GCP does not as principal buy securities for itself from or sell securities it owns to any client or as broker or agent effect securities transactions for compensation for any client. GCP allows employees to invest for their own accounts or have a financial interest in the same securities or other investments that the firm recommends for the portfolios of its clients, and may engage in transactions that are the same as or different than transactions recommended to or made for client portfolios. Such transactions are permitted if effected, pre-cleared and reported in compliance with GCP's policy on personal securities transactions. GCP recognizes the fiduciary responsibility to place its clients' interests first and has established policies in this regard to avoid any potential conflicts of interest. Reports of personal transactions in securities by GCP's personnel are reviewed by the firm's Designated Principal quarterly (or more frequently) if required.

GCP has developed and implemented a Code of Ethics that sets forth standards of conduct expected of GCP's advisory personnel. The Code of Ethics addresses, among other things, personal trading, gifts, the prohibition against the use of inside information and other situations where there is a possibility for conflicts of interest. The Code of Ethics is designed to protect GCP's clients by deterring misconduct. The Code educates personnel regarding the firm's expectations and laws governing their conduct, reminding personnel that they are in a position of trust and must act with complete propriety at all times, protect the reputation of GCP, guard against violation of the securities laws, and establish procedures for personnel to follow so that GCP may determine whether their personnel are complying with the firm's ethical principles. GCP will provide a copy of the Code to any client or prospective client upon request.

The principals of GCP have an affiliated entity, Gravity Investments. Gravity Investments may sell technology, consulting and other services to investments managers, including services and technologies principally designed to assist the investment firm in increasing assets under management. Gravity Investments is not directly compensated for increasing assets under management.



However, there may be indirect incentives for assisting in the sales of such companies. This indirect incentive may create a potential conflict of interest to investors and other business partners of GCP. While there is no absolute safeguard against such a conflict, this conflict is managed by strict adherence to the fiduciary interests of the partner and client. Additionally, Gravity normally examines portfolio allocations from a systematic perspective, utilizing Gpsphere, which utilizes proprietary diversification optimization. This technology creates a systematic process, which, when followed, reduces the opportunity for potential biases, arising from potential conflicts of interest.

**Item 12. Brokerage Practices . . . . .**

GCP is agnostic and objective to the selection of any Broker Dealer. We are not affiliated with any Broker Dealer. We receive no compensation for any broker dealer. We are non conflicted and unbiased.

GCP follows a practice of best execution which we consistently apply as feasible, given our client relationships.

GCP clients may have affiliations with Broker Dealers. In such cases, we utilize the brokerage for the primary purpose of trade execution.

GCP has authority to supervise and direct on an ongoing basis the investments of the Adviser’s client. In some instances, GCP is authorized, in its discretion and without prior consultation with the Adviser to: (1) buy, sell, exchange and otherwise trade any stocks, bonds or other securities or assets and (2) determine the amount of securities to be bought or sold and (3) place orders with the Adviser’s Custodian. In other instances, GCP will collaborate with the adviser on the proposed portfolios and any rebalances. In these situations, the adviser has the final approval of the portfolio design for the sub-advisory relationship.

GCP does not engage in any directed brokerage, or purchase any research with soft dollars. GCP receives no compensation beyond AUM based sub advisory fees or consulting fees.

**Item 13. Review of Accounts . . . . .**

While the underlying securities within the investment supervisory services are regularly monitored, the portfolios are reviewed on a periodic basis. These reviews will be made and a summation report will be provided to the Portfolio Manager and Chief Compliance Officer of GCP. The purpose of all reviews is to ensure that any investment plan or model continues to be implemented in a manner which matches the portfolios objectives. More frequent reviews may be triggered by material changes in the stated objectives or the market, political or economic environment.

GCP regularly follows the holdings of models and market conditions, both for the purpose of helping to ensure conformity to expectations as well as continual reevaluation of investments and searching for new opportunities.

Advisory clients are urged to formally notify the GCP of any changes in Model objectives.

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

GCP has no client referral or other client based referral compensation relationships. GCP however does compensate third party solicitors, wholesalers, company contractors and employees for marketing our sub advisory and consulting services.

We are non conflicted and unbiased as GCP receives no compensation beyond AUM based sub advisory fees or consulting fees.

## **Item 15. Custody .....**

GCP generally inherits the existing custody relationships of our clients.

We do not maintain custody of client assets.

We have experience in working with many custodians, including Schwab, Fidelity, NSF, TD Ameritrade, Pershing and FolioFN. We are able to work with any custodian and can usually start a new custody relationship with little cost.

In certain circumstances we may work with an investment firm to select an appropriate custodian for their firm or for a particular account.

We have no affiliated custodians and we are custody agnostic.

## **Item 16. Investment Discretion .....**

We provide portfolio management services on a discretionary basis. All accounts are subject to a written investment advisory agreement which describes our discretionary authority, any investment limitations, investment objectives, fees and other matters. Each client may designate a particular and/or custom set of constraints and other processes in concert with the stated objectives of a portfolio. GCP has authority to manage these portfolios within that framework and allows for periodic revision of such policies.

## **Item 17. Voting Client Securities .....**

GCP will not have or accept authority to exercise power with respect to client securities. GCP will not vote proxies on behalf of the client.

The designation of voting securities is passed through to our clients.

## **Item 18. Financial Information .....**

GCP has no adverse financial or legal conditions which would impair our ability to meet our contractual or fiduciary commitments to our clients.

### **Other Information**

#### **Class Actions and Other Legal Proceedings**

We do not participate in legal proceedings, including class actions, on behalf of our clients. However, we do support our advisory clients in their disputes or potential disputes.

### **Privacy Notice**

#### ***Our Promise to You***

You share both personal and financial information with us. Your privacy is important to us, and we are dedicated to safeguarding your personal and financial information.

#### ***Information Provided***

In the normal course of doing business, we typically obtain the following non-public personal information: Personal information regarding your identity such as name, address and social security number; Information regarding securities transactions effected by us; and Financial information such as net-worth, assets, income, financial account information, bank account information and account balances.

#### ***How We Manage and Protect Your Personal Information***

We do not sell information about you to third parties, nor is it our practice to disclose such information to third parties unless requested or permitted to do so by you or your representative or, if necessary, in order to process a transaction, service an account or as permitted by law. We may, however, share information about you with our affiliates. Additionally, we may share information with outside companies that perform administrative services for us. However, our arrangements with these service providers require them to treat your information as confidential.

In order to protect your personal information, we maintain physical, electronic and procedural safeguards to protect your personal information. Our Privacy Policy restricts the use of your information and requires that it be held in strict confidence.

#### ***Client Notifications***

We are required by law to annually provide a notice describing our Privacy Policy. In addition, we will inform you promptly if there are changes to our policy. Please do not hesitate to contact us with questions about this notice.

## **Voluntary Disclosure of Personal Investments .....**

Neither GCP nor its Principles collect any incentives from third party financial product firms. GCP does not receive referral fees of any kind for any investment product recommended in any model. The Principles of the firm have no conflicting commercial activities beyond the affiliated Gravity family of companies.