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07/11/2011

This brochure provides information about the qualifications and business practices of Protected Capital Management. If you have any questions about the contents of this brochure, please contact us at 208 378-1304 or e-mail at [richardsmith.pcm@gmail.com](mailto:richardsmith.pcm@gmail.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.

Protected Capital Management is a registered investment advisor. Registration of an investment adviser does not imply any level of skill or training. Additional information about Protected Capital Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

On July 28, 2010, The United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure documents that we provide to clients as required by SEC Rules. This Brochure dated 07/11/2011 is a new documents prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and includes certain new information that our previous brochure did not include.

In the future, this item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may provide other ongoing disclosure information about material changes, as necessary.

We will further provide you with a new Brochure, as needed, based on changes or new information, at any time, without charge.

Currently, our Brochure, which is available free of charge, may be requested by contacting Sheila Baum, 208 378-1304 or [sheilabaum.pcm@gmail.com](mailto:sheilabaum.pcm@gmail.com). Our Brochure is also available on our web site [www.pcmvalue.com](http://www.pcmvalue.com), at no charge.

Additional information about Protected Capital Management is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Protected Capital who are registered, or are required to be registered, as investment advisor representatives of Protected Capital.

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#### **Item 4 -- Advisory Business**

**Protected Capital Management** is a registered investment advisory firm. The business has operated continuously since it was founded by Richard D. Smith in 1993. It is owned entirely by Mr. Smith, and operates as a sole proprietorship. There no intermediate subsidiaries.

We specialize in managing investment portfolios of no-load mutual funds and ETFs. We will include individual stocks or option trades only to clients who request them. We are a fee only alternative to traditional brokers and financial sales people who work on commissions.

We manage IRAs, Roth IRAs, SEPs, 401k rollovers and taxable accounts primarily for conservative men and women over age 50. PCM portfolios are tailored to what PCM believes are appropriate asset allocations for conservative investors, based on current market conditions. Clients may choose to have other types of assets in their accounts without restrictions from PCM. We do not participate in any wrap programs.

We use tested, no-load solutions based on in-depth research to protect and grow retirement savings in today's uncertain economy.

We serve investors without the conflict of interest that can result from loads, penalties and sales commissions. This independent approach helps us remain unbiased and objective. We offer low costs and daily reviews to help investors succeed in today's volatile economy.

We manage money for busy people who don't have the time or desire to watch and monitor the financial markets every day. During bear markets, our research may prompt us to reduce equity positions and increase cash and defensive holdings. All client accounts are liquid so investors may withdraw funds at any time.

PCM acts as an investment advisor only and does not provide written financial planning services. All assets held by PCM are managed on a discretionary basis, and amounted to \$25,297,000 as of 05/19/2011. There are no non-discretionary accounts.

PCM provides an educational newsletter for clients and friends. This newsletter provides information on current market conditions and our analysis. There is no charge to receive this service. It is sent on a monthly basis with periodic mid-month updates.

#### **Item 5 -- Fees and Compensation**

PCM works on a fee-only basis and does not receive any form of sales commissions, 12(b)-1 fees or other compensation. It does not receive or accept "soft dollars" or hourly fees.

PCM charges quarterly advisory fees for its investment management services. They are based on 1/4<sup>th</sup> of the yearly fees shown below.

<b>Amount</b>	<b>But less than</b>	<b>Per Year</b>
Under	\$100,000	1.00%
\$100,000	\$200,000	0.85%
\$200,000	\$400,000	0.75%
\$400,000	\$1,000,000	0.65%
\$1,000,000	\$2,000,000	0.50%
\$2,000,000	\$3,000,000	0.40%
\$3,000,000	or more	0.35%

We may combine multiple accounts in the same family to give additional discounts.

TD Ameritrade Institutional (TDA) currently charges PCM \$25 per mutual fund transaction whether an individual or group trade. Depending on market volatility, there could typically be 3-10 trades per quarter per client. These trades are charged on a quarterly basis directly to PCM and not to clients.

To offset trading costs, PCM charges an additional flat rate of \$8.95 per quarter. Additional costs may result if a client makes special requests to buy or sell securities, ETFs or trade options outside of PCM's normal fund trading program.

PCM advisory fees are not charged until the end of each quarter and are calculated based on the value at the end of the quarter. Fees are deducted directly from the client account(s) by TDA and then processed and paid to PCM. Clients should understand that lower fees for comparable services may be available from other sources.

Mutual funds held in client account(s) have individual costs and expenses for the administration of each fund. These fees are deducted from the fund and are not paid to PCM. They represent additional costs to investors associated with the ownership of mutual funds. PCM does not receive any 12(b)-1 fees or other compensation from the selection of mutual funds. Where 12(b)-1 exist, these fees are paid directly to TDA and are considered part of the expense ratio of the fund for servicing and marketing costs.

PCM uses no-load mutual funds or those that waive any sales loads and does not receive any transaction based fees for any securities held in client accounts.

PCM does not require the prepayment of any fees, so clients may cancel or withdraw funds at any time. The client has the right to terminate the advisory agreement "penalty free" within 10 days after signing.

PCM clients agree to pay any customary and reasonable custodian, trustee, or bank wire fees that may apply from TD Ameritrade Institutional services per their agreement with PCM. TDA currently charges \$18.75 per quarter for custodial services, which they deduct each quarter. PCM does not mark up any fees charged by TDA. Non PCM clients may request our newsletter at no charge.

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

PCM does not charge performance based fees.

## **Item 7 -- Types of Clients**

PCM's typical clients are conservative men and women over 50 who are pre-retirees or retired individuals with an IRA, 401k rollover or other retirement savings plans. In addition to IRAs, Roth's, SEPs, and 401k rollovers, we also manage individual taxable accounts and family trusts. PCM does not require a minimum size to open or maintain an account. However, we believe our services are best suited for accounts of \$35,000 or more.

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

PCM utilizes both fundamental and technical analysis in making asset allocation decisions. PCM uses a multi-factor strategy model that takes into account changes in valuation, market trends, Federal Reserve actions, interest rates, inflation, chart patterns and other factors. It is designed to reduce risk when conditions are unfavorable for certain asset classes and determine when opportunities and conditions are favorable.

Our strategies will reduce allocations to equities particularly when trends are negative, when interest rates are rapidly rising, when inflation is rising, and when valuations are excessively high, or during periods of currency devaluation or global tensions. Investing in securities involves a risk of loss clients should be

prepared to bear. PCM makes an effort to minimize this risk through careful diversification, asset allocation and daily monitoring of market conditions.

### **Item 9 -- Disciplinary Information**

No disciplinary or legal actions have ever been taken against Richard D. Smith, adviser, or his managed personnel. PCM has never been the subject of a bankruptcy petition or lawsuit.

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

PCM is not involved with any other industry activities and has no other affiliations.

### **Item 11 -- Code of Ethics**

#### ***Code of Ethics***

At PCM, our desire is to adhere to the highest ethical standards. The first priority of PCM is to serve the client and perform services that are in his/her best interest. PCM accounts are typically mutual fund accounts with end of day pricing. This eliminates any front running of stocks. As a general rule PCM will not purchase individual stocks for clients, unless a specific request is made. Also, neither the owner nor employee(s) of PCM has access to nonpublic information regarding any securities or nonpublic information regarding the portfolio of holdings of any mutual fund. PCM does not manage any mutual funds.

PCM makes every effort to research and analyze mutual funds prior to executing trades. Mutual fund research data is obtained through Steele Mutual Fund Expert, Vector Vest, Stockcharts.com and Morningstar.com, Barron's, Investor's Business Daily, Bloomberg, Yahoo Finance and specialized newsletters and industry publications. All of these resources provide only public information to PCM. If client requests information regarding an individual stock, then PCM will cite research obtained from these resources.

In the event that the owner or an employee would become aware of any nonpublic information regarding any client(s)' purchase or sale of securities or any of the holdings in a mutual fund portfolio held by PCM clients, that person would be prohibited from sharing that information with anyone outside of PCM.

A complete copy of PCM's Code of Ethics is available to clients upon request.

#### ***Participation or Interest in Client Transactions***

PCM does not have any financial interest in any security bought or sold in client accounts.

#### ***Personal Trading***

The owner and employees of PCM may have private brokerage accounts in which individual stocks, mutual funds and options may be traded. All securities transactions are based on individual research and do not relate to transactions in client portfolios. Richard D. Smith, owner of PCM, has 100% of his personal retirement fund in PCM and this account is traded using the same guidelines as all other client accounts. If an employee chooses to open an account with PCM, then that account will be treated like any other client account.

Personal trading by the owner and/or employees of PCM does not involve any conflicts of interest since personal investments are not in the same securities as those held in client accounts. If such an occurrence

arose, then the client would be informed of any interests PCM owners or employees had in the same asset and any conflicts would be addressed.

## **Item 12 -- Brokerage Practices**

PCM chooses its custodian based on the best pricing platforms available in conjunction with types of assets, such as mutual funds, ETFs, and stocks offered. Currently, TD Ameritrade provides the trading platform, back office accounting support, daily internet access to client accounts, monthly statements to clients and year end tax documents. PCM periodically reviews the services and pricing from other custodians to ensure we have the best pricing and quality of service available.

Our goal is to give our clients the best possible cost savings for custodial services and account maintenance. Our review of providers includes trading efficiencies, low cost, and familiarity or ease of use with PCM's client software management system.

PCM does not receive any 12(b)-1 fees from any mutual fund investments for clients.

### ***Soft Dollar Practices***

PCM does not have any soft dollar practices for services provided by brokers in connection with client transactions.

### ***Client Referrals***

PCM does not receive client referrals from brokers.

### ***Directed Brokerage***

PCM uses the trading platform provided by TDA, which allows on-line purchase of mutual funds, individual stocks, options and ETFs for customer accounts. TDA allows for direct integration of trades into PCM's client database. Clients may choose other brokerages, if desired and acceptable to PCM. In the event of a directed brokerage situation, the client would be informed that PCM may not be able to obtain the most favorable price execution for client transaction(s).

### ***Trade Aggregation***

PCM clients benefit from the omnibus trading platform for mutual funds provided by TD Ameritrade. This helps keep trading costs to a minimum. PCM does not mark up TDA fees. Individual account transaction trading fees are only charged to a client account when a special request is made outside of PCM's normal omnibus trading practices.

## **Item 13 -- Review of Accounts**

On a daily basis PCM monitors both short and intermediate trends to measure the strength and direction of the market. Richard D. Smith reviews client account holdings on a regular basis to ensure holdings are appropriate for current market conditions.

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

At this time PCM does not have any compensation arrangement for client referrals.

#### **Item 15 -- Custody**

PCM does not have custody of any client funds. TD Ameritrade (TDA) provides PCM clients with custodial services. Monthly account statements are sent directly from TDA for each client account. TDA deducts all fees from client accounts. The custodial fees are paid directly to TDA and advisory fees are credited to a PCM sundry account. PCM provides clients with a detailed quarterly billing statement, which utilizes account balances posted by TDA at the end of each quarter. The billing statement shows all fees deducted by TDA and explains how advisory fees were calculated for the quarter. Clients are urged to compare the account statements received from TDA to any related items shown on PCM's billing statements. Clients are urged to report any discrepancies to PCM so the item can be fully researched and resolved, if necessary.

#### **Item 16 -- Investment Discretion**

PCM provides investment advisory services for client account(s) on a discretionary basis. This service is outlined in the PCM Investment Advisory Agreement signed by each client upon opening a new account. PCM is granted complete and unlimited authority to make all investment decisions for client account(s).

#### **Item 17 -- Voting Client Securities**

PCM accepts no proxy voting material in behalf of the client. All paperwork is sent to the individual account holder by TD Ameritrade.

#### **Item 18 -- Financial Information**

PCM does not require or solicit prepayment of more than \$500 in fees per client.

Neither Richard D. Smith nor PCM has ever been the subject of a bankruptcy petition. PCM does not have any financial conditions which would impair the adviser's ability to meet contractual commitments to clients.

PCM provides investment advisory services for the account(s) of a client on a discretionary basis. PCM is granted complete and unlimited authority to make all investment decisions for client account(s).

At no time will PCM ever be custodian or have custody of client funds. PCM uses the custodial services of TD Ameritrade Institutional.

PCM does not have any material conflict of interest relating to Mr. Smith or his employees that could impair the rendering of unbiased or objective advice. PCM does not have any compensation arrangements connected with advisory services, which are an addition to the advisory fees. Mr. Smith is not affiliated with any other financial industry activities and does not have any participation of interest in client transactions.

#### **Item 19 -- Requirements for State-Registered Advisors**

Part A. Richard D. Smith, the founder of PCM, started in the financial industry in 1970. He is a financial educator and a Registered Investment Advisor. Richard has over 35 years experience in the investment and financial services fields. He started PCM in 1993 and is the editor of the Protected Capital Partners Newsletter. Richard graduated from Brigham Young University and received a Master's degree in Instructional Technology from San Jose State University. There, he created a Retirement Income Workshop for Senior Investors. He received the CFP, Certified Financial Planners designation in 1987, but no longer



uses this designation. Mr. Smith's CFP designation is no longer active and he does not participate in creating financial plans for clients. He created his first Asset Allocation Model in 1988 and is the chief investment officer of PCM. Mr. Richard D. Smith, dba Protected Capital Management is the Chief Executive Officer and Chief Compliance officer. PCM is registered in his home state of Idaho has met all the requirements for state approval. He is in compliance with Idaho's minimum financial requirements.

Any material conflicts of interest under CCR Section 260.238 which could be reasonably expected to impair the rendering of unbiased and objective advice will be disclosed in writing to the client. To date, neither Richard D. Smith, nor any of his employees are aware of any such conflicts of interest in any of the following areas.

(1) Compensation arrangements connected with advisory services to clients which are in addition to compensation from such clients for such services. PCM does not receive any additional compensation for advisory services.

(2) Charging a client an advisory fee for rendering advice without disclosing that a commission for executing securities transactions pursuant to such advice will be received by the adviser, its representatives or its employees, or that such advisory fee is being reduced by the amount of the commission earned by the adviser, its representatives or employees for the sale of securities to the client.

(3) Guaranteeing a client that a specific result will be achieved (e.g., a gain or no loss) as a result of the advice which will be rendered. PCM does not guarantee specific results for advice rendered.

(4) Disclosing the identity, affairs, or investments of any client to any third party unless required by law to do so, or unless consented to by the client. PCM does not disclose client identity, affairs or investments to any third party unless required by law or consented to by client.

(5) Entering into, extending or renewing any investment advisory contract, other than a contract for impersonal advisory services, unless such contract is in writing and discloses, in substance, the services to be provided, the term of the contract, the advisory fee or the formula for computing the fee the amount or the manner of calculation of the amount of the prepaid fee to be returned in the event of contract termination or nonperformance, whether the contract grants discretionary power to the adviser or its representatives. PCM clients are aware of advisory fees and how such fees are calculated prior to signing an investment advisory contract. PCM does not charge the prepayment of any fees.

(6) Making any untrue statement of a material fact or omitting a statement of material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading in the solicitation of advisory clients. PCM adheres to the highest ethical standards and will not mislead a client with false statements or omit any information related to our advisory services.

**Sheila K. Baum** is a research assistant to Mr. Smith and office manager of PCM. She has been designated as the CCO to ensure compliance to SEC and state regulation. Her responsibilities are clerical in nature. She reviews all material posted to the PCM website, newsletters and advertising, if any. She does not give investment advice to clients. She has a degree in finance from Brigham Young University and has been with PCM since 2004. She has experience in internal auditing, tax preparation, university endowments and office management. She is supervised directly by Mr. Smith.

PCM has no material conflicts of interest that would impair the rendering of unbiased and objective advice. However, if a potential conflict of interest regarding the investment adviser, its representatives or any of its employees should arise, client(s) will be immediately notified.

Part B. Mr. Smith is not actively engaged in any other activity, other than giving investment advice. He is not compensated for advisory services with any type of performance based fees.

Part C. Neither Mr. Smith nor any of his employees are compensated for advisory services with performance-based fees. Performance-based compensation may create an incentive for the advisor to recommend an investment that may carry a higher degree of risk to the client. This is one reason Mr. Smith chooses not to participate in any service that would be compensated with performance-based fees.

Part D. Neither Mr. Smith nor any of his employees has ever been involved in any of the following items:

1. An award or otherwise being found liable in an arbitration claim alleging damages in any amount involving any of the following:
  - (a) an investment or an *investment-related* business or activity;
  - (b) fraud, false statement(s), or omissions;
  - (c) theft, embezzlement, or other wrongful taking of property;
  - (d) bribery, forgery, counterfeiting, or extortion; or
  - (e) dishonest, unfair, or unethical practices.
2. An award or otherwise being found liable in a civil, self-regulatory organization or administrative proceeding involving any of the following:
  - (a) an investment or an *investment-related* business or activity;
  - (b) fraud, false statement(s), or omissions;
  - (c) theft, embezzlement, or other wrongful taking of property;
  - (d) bribery, forgery, counterfeiting, or extortion; or
  - (e) dishonest, unfair, or unethical practices.

Part E. Neither Mr. Smith nor any of his employees has any relationship or arrangement with any issuer of securities.

## Brochure Supplement



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**Sheila K. Baum, Research Assistant, Office Manager and Chief Compliance Officer**

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**Website: [www.pcmvalue.com](http://www.pcmvalue.com)**

The purpose of this brochure supplement is to provide information about Richard D. Smith. It supplements the Protected Capital Management (PCM) brochure document for ADV Part 2A. You should have received a copy of the PCM brochure. Please contact either Richard D. Smith or Sheila K. Baum if you did not receive the PCM brochure or if you have any questions about the contents of this brochure supplement.

Additional information about Richard D. Smith may be found on the SEC's website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

While Richard D. Smith may refer to himself as a "registered investment adviser" or "RIA" clients should be aware that registration itself does not imply any level of skill or training.

## **Item 2—Educational and Business Experience**

Richard D. Smith, Owner and Chief Investment Officer

### **Education**

B.S., Brigham Young University, 1970

M.A. San Jose State University, 1984

Completed Professional Education Program, Certified Financial Planning, 1987

Mr. Smith's CFP designation is no longer active and he does not participate in creating financial plans for clients.

### **Business Background**

Protected Capital Management (1993 to Present) Mr. Smith is the owner and Chief Investment Officer. He is a registered investment adviser and provides investment advisory services.

Independent Financial Planner (1971-1993) Mr. Smith acted as an independent financial planner and insurance agent.

Connecticut General (1970-71) Mr. Smith served as an Independent Insurance Agent.

## **Item 3—Disciplinary Information**

Richard D. Smith has never had any legal or disciplinary events in the past.

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

Richard D. Smith is not engaged in any other business activities.

## **Item 5—Additional Compensation**

Richard D. Smith does not receive any additional compensation or economic benefit.

## **Item 6—Supervision**

Mr. Smith considers himself to be a fiduciary and works to ensure that all advisory services are performed in the best interests of the client. All recommended transactions are reviewed on the portfolio management system after downloading the data from TD Ameritrade, the custodian of client accounts.

## **Item 7—Requirements for State-Registered Advisers**

Neither Mr. Smith nor any of his employees has ever been involved in any of the following items:

1. An award or otherwise being found liable in an arbitration claim alleging damages in any amount involving any of the following:
  - (a) an investment or an *investment-related* business or activity;
  - (b) fraud, false statement(s), or omissions;

- (c) theft, embezzlement, or other wrongful taking of property;
  - (d) bribery, forgery, counterfeiting, or extortion; or
  - (e) dishonest, unfair, or unethical practices.
2. An award or otherwise being found liable in a civil, self-regulatory organization or administrative proceeding involving any of the following:
- (a) an investment or an *investment-related* business or activity;
  - (b) fraud, false statement(s), or omissions;
  - (c) theft, embezzlement, or other wrongful taking of property;
  - (d) bribery, forgery, counterfeiting, or extortion; or
  - (e) dishonest, unfair, or unethical practices.

Mr. Smith has not been the subject of any bankruptcy petition.