

**ONE FEE PROGRAM BROCHURE**

**WRAP FEE PROGRAM**

**The Winchester Group, Inc.**

**March 30, 2012**

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**This wrap fee program brochure provides information about the qualifications and business practices of The Winchester Group, Inc.**

**If you have any questions about the contents of this wrap brochure, please contact us at (212) 486-8181 or email: [info@winchestergroupinc.com](mailto:info@winchestergroupinc.com).**

**The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.**

**Additional information about The Winchester Group, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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**Item 2. Material Changes**

The Winchester Group, Inc. has the following material changes to note since its last annual update on March 31, 2011:

In September 2011, FINRA initiated regulatory action against our firm as a broker-dealer. The action involved MSRB Rule G-8 - Books and Records to be Made and MSRB Rule G-14 - Reports of Sales or Purchases (together the “Rules”). Without admitting or denying guilt, Winchester resolved this matter through an Acceptance, Waiver & Consent on September 28, 2011. The sanction ordered was a monetary fine of \$10,000 which was paid on October 5, 2011.

Winchester was found to have not been in compliance with MSRB Rules G-8 and G-14. Certain municipal transactions that were executed away from our clearing firm were not reported back to Winchester in a timely fashion. Therefore, our subsequent capture and recording of execution times and our reports to the real time reporting system violated the 15-minute reporting requirement of the Rules. Because of these issues, and to mitigate the risk of this situation from being repeated, we will no longer execute municipal transactions away from our clearing firm for accounts custodied at our clearing firm.

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**Brochure Supplements attached.**

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## **Item 4. Services, Fees and Compensation**

### ***A. General Description of Services and Fees***

The Winchester Group, Inc. (“Winchester”, “Firm”, or “we/us/our”) is a dually registered investment adviser and broker-dealer firm registered with the Securities and Exchange Commission (“SEC”). The Firm was founded in 1990 and has its primary place of business in New York, New York. The Firm furnishes investment advisory services to separately managed accounts on a discretionary basis (our “Clients”), although Winchester may also manage assets on a nondiscretionary basis under certain circumstances.

Winchester is also a member firm of FINRA as a broker-/dealer.

The Firm is organized as a corporation and its principal owners are Irvin L. Cherashore, Chairman & Director; Rudolf J. Mueller, President, Chief Financial Officer & Director; and Thomas R. Settle, Director.

The brochure describes our wrap fee program, the One Fee Program (“Program”) that we sponsor as broker-dealer and manage as investment adviser. We are the sole investment adviser to the Program. There is no difference in how a One Fee Program account is managed by us compared to our other separately managed client accounts as described in our Firm Brochure. The only difference is in how the fees on an account are charged. A wrap fee program is an investment program whereby the management fee is the only fee charged to the wrap client. Generally, there are no transaction-based charges such as commissions. Wrap clients choose to pay one fee covering both advisory services and brokerage, custodial and other services provided by us or our clearing agent, National Financial Services LLC (“NFS” or “Custodian”), a company that is wholly owned by Fidelity Global Brokerage Group, Inc., a wholly owned subsidiary of FMR LLC. NFS is the clearing broker for Winchester.

### **General**

We provide investment advisory services to our wrap clients by giving continuous advice on the investment of portfolio securities based on your individual needs. We are responsible for all day-to-day investment and trading decisions. In providing these services, we consider such factors as size and source of your account, your identity and background, your income and investment objectives (including tax sensitivity), investment guidelines, investment restrictions and your relative tolerance for risk.

Our portfolio managers create an investment strategy for you which is consistent with your financial objectives and tolerance for risk. The portfolio will be unique to each wrap client, as we do not use a model for accounts, and it will be adjusted if your goals change.

Depending on the objectives you provide us with, we will make investments in your account which follow those objectives. Investments may include: equity securities (including exchange-listed securities, securities traded over-the-counter, securities of foreign issuers), warrants,

corporate debt securities, commercial paper, certificates of deposit, municipal securities, mutual fund shares, exchange-traded funds (including inverse, double- and/or triple-leveraged funds), United States government securities, government-related agency bonds, options contracts on securities, and convertible securities or bonds.

To participate in our One Fee Program, you must enter into an Investment Advisory Agreement with us and establish an account with our Custodian. As described above, NFS is the Custodian with which we maintain a clearing relationship. The Custodian will have custody of the assets in your account and we will execute all securities transactions for your account, as the Program sponsor.

### **Fees**

We receive a fee (“Program Fee” or “Fee”) from you that covers the following:

- investment management services provided by us;
- execution services provided by us; and,
- custodial and other administrative services provided by NFS

The annual Program Fee will vary depending upon the value of your account. The Fee schedule is described below:

<b>Fee Schedule</b>	
<b><u>Assets in the Account</u></b>	<b><u>Fee (As an Annual % of Assets)</u></b>
<b>\$0 – first \$2,000,000</b>	<b>1.50%</b>
<b>Next \$3,000,000 (\$2,000,001 - \$5,000,000)</b>	<b>1.00%</b>
<b>Next \$10,000,000 (\$5,000,001 - \$15,000,000)</b>	<b>0.75%</b>
<b>Beyond \$15,000,001</b>	<b>0.50%</b>

The annual Fee rate for wrap client accounts may vary based on the level of assets as described in the table above. Therefore, an account may experience changes to its fee as the assets in the account expand or contract.

As an example, if the value of assets in a wrap client’s account is \$2,500,000 at the end of a quarter, the Fee will be calculated on an annual rate of 1.50% on the first \$2,000,000 (\$30,000),

and an annual rate of 1.00% on the \$500,000 (\$5,000) above the \$2,000,000 threshold for a total annual fee of \$35,000. The quarterly fee would be one-fourth of that amount, or \$8,750.

Unless agreed upon otherwise, we will generally charge the Fee to your account at the end of each calendar quarter in arrears. The Fee is based on the total market value of the assets in your account on the last day of the quarter. On the date of valuation, we will determine the value of your account based on the closing price on the principal market where the securities are traded. If no market quotation is available for certain securities, they will be valued at the known current bid price that we or the Custodian believe best represents current market value. All other assets will be valued at Fair Market Value as determined in good faith.

If you make a withdrawal during the calendar quarter, the Fee will be assessed on the value withdrawn and pro-rated through the date of the withdrawal. The services received or the number of transactions made during the quarter will not affect the Fee charged. Additionally, if your account is only open for a portion of the billing period, the Fee will be pro-rated based on the number of days your account was open during the period.

When opening an account and signing our Investment Management Agreement (“IMA”), you authorize Winchester to bill the Custodian directly for the Fee owed to us, and you authorize the Custodian to pay us directly from your account.

Our fees are negotiable and may be higher or lower than:

- The fees we charge other wrap clients or separately managed client accounts;
- The fees stated on the above schedule; or,
- The cost of similar services offered through other investment advisers and financial institutions.

### ***B. Cost of Program***

It is possible that the Program may not cost you the same amount as if you had purchased the services we offer separately. You should know that there is a possibility that we and our portfolio managers will make more money if you participate in the Program than if you were to pay for the services separately. In some cases, we may have a financial incentive to recommend the Program over our other advisory services.

To compare the costs of the bundled services offered through this Program with the costs of unbundled services, you should consider the following:

- Turnover rate in your account;
- Trading activity in your account;
- Standard advisory fees that we and other investment advisers may charge for similar services; and,
- Brokerage commissions and fees that we and other broker-dealers may charge for similar services.

The Fee may be higher or lower than fees charged by other investment advisers for comparable services.

The Program may not be suitable for you if your account has low trading volume over an extended period of time. Due to the nature of the Fee, some may regard us as having a conflict of interest as we may realize a greater profit on an account with a relatively low rate of portfolio turnover compared to other types of accounts, assuming the same level of fees.

### ***C. Other Fees and Expenses***

Approximately 60% of the Fee that wrap clients pay is attributable to investment management services, and approximately 40% is attributable to brokerage and custodial services.

The Fees that wrap clients pay to Winchester do not cover the following:

- Brokerage commissions or other charges for transactions that are *not* made by Winchester such as mark-ups, mark-downs, and spreads;
- Certain charges from the Custodian, including:
  - Costs associated with exchanging foreign currencies;
  - SEC fees;
  - Transfer taxes and charges;
  - Exchange fees;
  - Wire transfer fees;
  - Postage fees;
  - Auction fees;
  - Foreign clearing custodial fees;
  - Charges associated with checking and credit card accounts; and,
  - Other fees or taxes required by law.
  - Annual account fees or other administrative fees charged by the Custodian.

The charges listed above will be in addition to the Program Fee.

If you have assets in your account which are invested in funds (such as mutual funds or Exchange-Traded Funds), those assets will be considered part of the value of your account when we calculate our fee. Mutual funds and exchange-traded funds (“ETFs”) have their own separate management fees and expenses that you will pay as an investor in the funds. These fees will be in addition to the Fee we charge you for the Program.

Money-market funds, which may be used for cash reserves, may pay 12b-1 fees to us. 12b-1 fees are fees that are levied by certain mutual funds to cover the cost of distribution. The fee collected is usually used to pay broker-dealers, like us, for servicing the funds.

We expect to have the transactions in your account executed by us whenever possible because the Fee covers brokerage transactions through our broker-dealer.

Given that we execute transactions for your account, you agree to the following points when signing our IMA:

- We will not go through a broker-dealer selection process that evaluates brokers based upon best execution, since we are the broker in most cases;
- Orders for your account generally will be placed separately from orders for other Separately Managed Client accounts that we manage; Your account may not realize cost savings that you might if transactions for your account were grouped together with other orders in one single transaction (“aggregated orders”). Although we will attempt to aggregate your orders when possible, it may not always be possible to do so.

When deciding whether to invest through the Program or otherwise, you should consider the following factors:

- Commissions;
- Execution, clearance and settlement capabilities; and,
- Fees for brokerage, custodial and other services.

**Aggregated Orders.** As stated above, we may combine orders (“bunching” or “blocking” trades) for more than one account where blocking the trades appears to be potentially advantageous for each participating account (e.g., for the purpose of reducing brokerage commissions or obtaining a more favorable transaction price). We will aggregate transaction orders only if we believe that the aggregation is consistent with our duty to seek best execution for Client trades and is consistent with the terms of the investment advisory agreement with each Client whose trades are being aggregated.

Client orders for the same security placed outside of an aggregated order may be executed at different terms than those orders within the aggregated order. The difference in terms may be to the detriment of the non-bunched orders.

**Agency Cross Transactions.** An agency cross transaction is a transaction in which an investment adviser acts as the broker for both the seller and purchaser of a security (and either the seller or the purchaser is a client). We may engage in agency cross transactions without obtaining your specific consent only under the following conditions:

- You have prospectively consented in writing to such trades, and we have disclosed, if applicable, that we will act as broker for, receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to such transactions;
- We send you a written confirmation of the transaction at or before the completion of the transaction. The confirmation must include:
  - a statement of the nature of the transaction;
  - the date the transaction took place;
  - an offer to furnish upon request, the time when the transaction took place;



- the source and amount of any other remuneration received or to be received by us; provided that if, in the case of a purchase, we were not participating in a distribution, or in the case of a sale, we were not participating in a tender offer, the confirmation may state whether any remuneration has been or will be received and that the source and amount of such other remuneration will be furnished upon written request;
- We send you an annual written disclosure statement identifying the total number of agency cross transactions during the period of the statement and the total amount of all commissions or other remuneration received or to be received by us in connection with such transactions during the period.

**Transactions Between Client Accounts.** From time to time, we may seek to execute transactions between Client accounts (including rebalancing trades between client accounts). Transactions between Client accounts are not permitted if they would constitute principal trades or trades for which we or our affiliates are compensated as brokers unless the appropriate Client consent has been obtained. In addition, such trades will not be conducted with an ERISA account (including a private investment vehicle that has substantial benefit plan investors and is subject to ERISA).

#### ***D. Compensation for Recommendation of Participation***

Our portfolio managers are compensated in part upon the management fees received by our firm. Their compensation, as a percentage of the management fee, is the same whether the account is a Program account or another separately managed account. They have no incentive to recommend a Program account over another type of advisory account.

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### **Item 5. Account Requirements and Types of Clients**

We generally provide investment advice in the One Fee Program to individuals (including high net-worth individuals), retirement plans, trust accounts, pension and profit sharing plans, limited partnerships, charitable institutions, and corporations and endowments.

There is no minimum account size for opening a Program account.

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### **Item 6. Portfolio Manager Selection and Evaluation**

#### ***A. Portfolio Manager Selection***

We are the sole portfolio manager in the One Fee Program. Therefore, we do not select and review portfolio managers for the Program.

The only difference between Program accounts and other advisory accounts is the way in which we calculate fees. We do not provide performance information to our clients. Upon request, a client may receive a report from our portfolio management system, AXYS, that shows quarterly performance. However, we do not regularly provide this information to clients.

Neither we nor a third-party reviews portfolio manager performance information and performance information may not be calculated on a uniform and consistent basis.

***B. Related Persons as Portfolio Managers of the Program***

As we are the sole investment adviser to the Program, all portfolio managers for the Program accounts are employees of Winchester.

Conflicts of interest could arise as we are serving as the proprietary manager to wrap clients participating in the Program. As a proprietary manager with discretion we may have a financial incentive to recommend certain products over others. This conflict is mitigated in that wrap clients pay the same fee no matter what the transaction or product costs.

***C. Description of Advisory Services, Performance-Based Fees, , Investment Strategies, Risk of Loss and Voting Client Securities***

We provide investment advisory services to our Clients by giving continuous advice on the investment of portfolio securities to individuals (including high net-worth individuals), retirement plans, trust accounts, pension and profit sharing plans, limited partnerships, charitable institutions, and corporations and endowments.

The advice we provide to our Clients is based on the individual needs of each Client and we are responsible for all day-to-day investment and trading decisions for most accounts. In providing these services, we consider such factors as size and source of the account, your identity and background, your income and investment objectives (including tax sensitivity), investment guidelines, investment restrictions and your relative tolerance for risk.

Depending on the objectives you provide us with, we will make investments in your account which follow those objectives. Investments may include: equity securities (including exchange-listed securities, securities traded over-the-counter, and securities of foreign issuers), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, mutual fund shares, exchange-traded funds (including inverse, double- and/or triple-leveraged funds), United States government securities, government-related agency bonds, options contracts on securities, and convertible securities or bonds.

**Availability of Tailored Services for Individual Clients**

As a Client, you may impose restrictions on investing in certain securities. Those restrictions are outlined in our Investment Advisory Agreement (a negotiated agreement between you and us) or other account related documentation.

**Performance-Based Fees and Side-by-Side Management**

We do not charge performance-based fees.

## **Methods of Analysis and Investment Strategies**

Our portfolio managers typically make investment decisions based on fundamental and technical analysis using:

- Financial newspapers and magazines;
- Inspections of corporate activities;
- Research materials prepared by others;
- Corporate rating services;
- Annual reports, prospectuses and filings with the SEC; and,
- Company press releases.

Our analysis is primarily fundamental and is applied to the economy, to industries, sectors and companies. Neither fundamental nor technical analysis can accurately predict the price action of the stock market or of any one investment. While our portfolio managers use these methods of analysis to draw conclusions about the probability of a particular investment's profitability, there exist a multitude of factors which prevent these methods from being completely accurate. Some of the risks that may not necessarily be foreseen using fundamental and technical analysis include: the economic environment, which may impact certain industries in an unforeseeable fashion; interest rates; the credit markets, including availability of loans and credit lines (both retail and commercial), as well as the cost of credit; foreign currency exchange rates; consumer confidence; supply interruptions due to unforeseen circumstances; commodity prices; natural disasters and other unforeseen events such as the financial crisis of 2008.

## **Equities**

We do not categorize ourselves as a value or growth, large- or small-cap manager. Rather, we create diversified portfolios in accordance with each client's investment objectives that are driven by what we deem to be reasonable prices in the equity markets. We are confident that this provides the best opportunity to make money for our Clients over time. Our portfolio managers will use Exchange Traded Funds (ETFs) if they believe it is in the Client's best interest. ETFs may be used as a hedge on equities or as a method to participate in a market that would otherwise be unavailable to a client, such as commodities.

Most of our portfolio managers invest primarily, though not exclusively, in large-cap stocks. A small number of our portfolio managers specialize in small cap stocks.

We plan to introduce a new investment platform this year that will focus on small cap value investing. This platform is in the early planning stages at this time.

## **Fixed Income**

The type of fixed-income securities used for a Client is driven by a Client's goals and risk tolerance, which also determine the maturities of the securities in the portfolio. We make use of

many fixed-income instruments in the investment process, including treasuries, government agencies, corporates and tax exempt municipal bonds.

Fixed income investing is not a focus of our firm. We manage our Client accounts in accordance with their objectives. Many of our Clients have a portion of assets that they set aside for lower risk, income-generating purposes. We typically invest those assets in fixed income and dividend-producing securities.

#### ***D. Material Risks***

Our individual portfolio managers invest your assets using the strategy they think is appropriate for you based on your investment objectives as stated in your IMA. If you instruct us to emphasize a specific approach, it will be noted in your Agreement. Our portfolio managers are not required to follow a specific portfolio model or asset allocation strategy when they invest your assets, since we do not impose this type of guideline or restriction.

All investments involve financial risk for which you are responsible. It is also your responsibility to pay any taxes which may be due on transactions in your account.

Our portfolio managers may use one or more of the following techniques when investing for your account:

- Long-term purchases (securities held at least a year);
- Short-term purchases (securities sold within a year);
- Trading (securities sold within 30 days);
- Short sales; and,
- Margin transactions.

Long-term purchases are usually based on a 2-4 year time horizon subject to change based upon issuer activity and/or the market itself. Recent history has proven that the markets can be quite volatile, so depending upon your account's point of entry, losses can always occur and it may take a very long time for investments to be profitable, if ever.

Short-term purchases involve a shorter time frame and these positions will be closed out if a security reaches its price target, fails to deliver anticipated financial results or due to changes in the sector's outlook (example: top industry analysts conclude that the "steel industry outlook darkens").

Trading is a strategy that can result in significant losses due to the high cost of execution for frequent trading, exaggerated swings in buying and selling pressures and the volatility of the market itself. Unless instructed by our Clients, Winchester managers do not advocate short-term trading strategies.

Short selling is a tactic that may be best left to those engaged in hedging a position or employing it as a tax strategy. Short selling is atypical in our advisory accounts and we do not advocate its use due to the risks involved in betting on the wrong direction.

Margin transactions involve borrowing to leverage an investment. Such leverage augments the size of gains and losses. Unless specifically instructed to incur margin debt by you, our portfolio managers do not engage in this practice for our advisory accounts.

Each of the above strategies may prove to be unprofitable and you should be prepared to withstand losses when investing in securities. You take on risk whenever you have market exposure, including, but not limited to, the following:

Stock Market Risk. The value of the equity securities in which the account invests may decline in response to developments affecting individual companies and/or general economic conditions. Price changes may be temporary or last for extended periods. For example, stock prices have historically fluctuated in periodic cycles.

Stock Selection Risk. In addition to, or in spite of, the impact of movements in the overall stock market, the value of an account's investments may decline if the particular companies in which the account invests do not perform well in relation to the market.

Growth Investing Risk. The prices of growth stocks may be more sensitive to changes in current or expected earnings than the prices of other stocks. The prices of growth stocks also may fall or fail to appreciate as anticipated by the advisor, regardless of movements in the securities markets.

Value Investing Risk. Value investing attempts to identify strong companies selling at a discount from their perceived value. Advisors using this approach generally select stocks at prices that are, in their view, temporarily low relative to the company's earnings, assets, cash flow and dividends. Value investing is subject to the risk that a stock's intrinsic value may never be fully recognized or realized by the market, or its price may go down. In addition, there is the risk that a stock judged to be undervalued may actually be appropriately priced.

Small Company Stock Risk. Smaller or medium-sized companies often have more limited managerial and financial resources than larger, more established companies, and therefore may be more susceptible to market downturns or changing economic conditions. Prices of smaller companies tend to be more volatile than those of larger companies and issuers may be subject to greater degrees of changes in their earnings and prospects. Since smaller company stocks typically have narrower markets and are traded in lower volumes, they are often more difficult to sell.

Short-Term Trading Risk. As described above, an account may buy and sell the same security within a short period of time. The frequency of trading within an account impacts portfolio turnover rates. A high rate of portfolio turnover (100% or more) could produce higher trading costs and taxable distributions, which would detract from an account's performance.

Sector Concentration Risk. An account may invest a substantial portion of its assets within one or more economic sectors. To the extent an account is concentrated in one or more sectors, market or economic factors impacting those sectors could have a significant effect on the value of the account's investments. Additionally, an account's performance may be more volatile when

the account's investments are less diversified across sectors. For example, since benchmark sector weights influence an account's sector exposure, an account could tend to be more heavily weighted in health care or information technology companies. The values of health care and information technology companies are particularly vulnerable to rapid changes in technology product cycles, government regulation and competition. Health care stocks are also heavily influenced by the impact of cost containment measures. Technology stocks, especially those of less-seasoned companies, tend to be more volatile than the overall market.

ETF Risk. ETFs are investment companies that are bought and sold on a securities exchange, like a stock. The risks of owning an ETF are generally comparable to the risks of owning the underlying securities held by the ETF. However, when an account invests in an ETF, it will bear additional expenses based on its pro rata share of the ETF's expense ratio. . In addition, because of these expenses, compared to owning the underlying securities directly, it may be more costly to own an ETF.

Foreign Securities Risk. Foreign securities tend to be more volatile and less liquid than U.S. securities. Further, foreign securities may be subject to additional risks not associated with investment in U.S. securities due to differences in the economic and political environment, the amount of available public information, the degree of market regulation, and financial reporting, accounting and auditing standards, and, in the case of foreign currency denominated securities, fluctuations in currency exchange rates.

Emerging Markets Investing Risk. There are greater risks involved in investing in emerging market countries than those associated with investment in developed foreign markets. Generally, structures in emerging market countries are less diverse and mature than those of developed countries and their political systems are less stable; therefore, the risks of investing in foreign securities in general tend to be amplified for investments in emerging markets. Further, due to the small securities markets and low trading volumes in emerging market countries, investments may be more illiquid and volatile than investments in developed countries and therefore subject to abrupt and severe price fluctuations. In addition, investment in emerging market countries may require an account to establish special custody or other arrangements before investing. Because the securities settlement procedures tend to be less sophisticated in emerging market countries, an account may be required to deliver securities before receiving payment and may also be unable to complete transactions during market disruptions.

Options. Like other securities options carry no guarantees, and investors must be aware that it's possible to lose the entire principal invested, and sometimes more. As an options holder, investors risk the entire amount of the premium paid. But as an options writer, the level of risk is much higher. For example, if an investor writes an uncovered call, they face unlimited potential loss, since there is no cap on how high a stock price can rise. However, since initial options investments usually require less capital than equivalent stock positions, the potential cash losses as an options investor are usually smaller than if the investor had bought the underlying stock or sold the stock short. The exception to this general rule occurs when options are used to provide leverage: Percentage returns may be high, but it is important to remember that percentage *losses* can be high as well.

Credit Risk. An account may lose money if an issuer of a fixed income security is unable or unwilling to make timely principal and/or interest payments or to otherwise honor its payment obligations. Further, when an issuer suffers adverse changes in its financial condition or credit rating, the price of its debt obligations may decline and/or experience greater volatility. A change in financial condition or credit rating of a fixed income security can also affect its liquidity and make it more difficult to sell.

Interest Rate Risk. The value of a bond may decline due to an increase in the absolute level of interest rates, or changes in the spread between two rates, the shape of the yield curve or any other interest rate relationship. Longer-term bonds are generally more sensitive to interest rate changes than shorter-term bonds. Generally, the longer the average maturity of the bonds held by an account, the more an account's value will fluctuate in response to interest rate changes.

Pre-payment Risk. If an account is invested in asset-backed and mortgage-backed securities such account may be subject to higher prepayment risk than an account with a higher concentration in other types of fixed income securities. An account may experience losses when an issuer exercises its right to pay principal on an obligation earlier than expected. This may happen during a period of declining interest rates. Under these circumstances, the account may be unable to recoup all of its initial investment and will suffer from having to reinvest in lower yielding securities. The loss of higher yielding securities and the reinvestment at lower interest rates can reduce an account's income, total return and share price. Rates of prepayment, faster or slower than expected, could reduce an account's overall yield, increase the volatility of the account and/or cause a decline in value.

Municipal Securities Risk. The yields of municipal securities may move differently and adversely compared to yields of the overall debt securities markets. There could be changes in applicable tax laws or tax treatments that reduce or eliminate current federal income tax exemptions on municipal securities and otherwise adversely affect the current federal or state tax status of municipal securities. Such changes also may adversely impact the value of municipal securities owned by an account and, as a result, the value of the account. The value of a municipal security is also affected by the overall financial health of the specific municipal entity issuer. A local municipality that cannot meet its financial obligations could lead to a default on its bonds.

When-Issued Securities and Delayed Delivery Risk. A purchase of "when-issued" securities refers to a transaction made conditionally because the securities, although authorized, have not yet been issued. A delayed delivery or forward commitment transaction involves a contract to purchase or sell securities for a fixed price at a future date beyond the customary settlement period. Purchasing or selling securities on a when-issued, delayed delivery or forward commitment basis involves the risk that the value of the securities may change by the time they are actually issued or delivered. These transactions also involve the risk that the counterparty may fail to deliver the security or cash on the settlement date. In some cases, an account may sell a security on a delayed delivery basis that it does not own, which may subject the account to additional risks generally associated with short sales. Among other things, the market price of the security may increase after an account enters into the delayed delivery transaction, and the account will suffer a loss when it purchases the security at a higher price in order to make

delivery. In addition, an account may not always be able to purchase the security it is obligated to deliver at a particular time or at a favorable price.

**Warrants.** Warrants are instruments that entitle the holder to buy an equity security at a specific price for a specific period of time. Changes in the value of a warrant do not necessarily correspond to changes in the value of its underlying security. The price of a warrant may be more volatile than the price of its underlying security, and a warrant may offer greater potential for capital appreciation as well as capital loss. Warrants do not entitle a holder to dividends or voting rights with respect to the underlying security and do not represent any rights in the assets of the issuing company. A warrant ceases to have value if it is not exercised prior to its expiration date. These factors can make warrants more speculative than other types of investments.

**Short Selling.** We do not typically engage in the practice of short selling in Client accounts, but there are times when it may make sense for a particular account. A Short sale is a sale of a security a Client borrows but does not actually own, usually made with the anticipation that the price of the security will decrease and the Client will be able to make a profit by purchasing the security at a later date at a lower price. Clients will incur a loss on a short sale if the price of the security increases prior to the time it purchases the security to replace the borrowed security. A short sale presents greater risk than purchasing a security outright since there is no ceiling on the possible cost of replacing the borrowed security, whereas the risk of loss on a “long” position is limited to the purchase price of the security. Closing out a short position may cause the security to rise further in value creating a greater loss.

Short sale transactions have been subject to increased regulatory scrutiny in response to recent market events, including the imposition of restrictions on short selling certain securities and new reporting requirements. Winchester’s ability to execute a short selling strategy may be adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to these adverse market events, and such changes may be adopted with little or no advance notice.

Such regulations or prohibitions may impose restrictions that adversely affect the ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, Winchester may not be able to effectively pursue a short selling strategy on behalf of its Clients due to a limited supply of securities available for borrowing. Moreover, the ability to continue to borrow a security is not guaranteed.

All investments involve financial risk.

#### ***E. Authority to Vote Client Securities***

We do not vote proxies or exercise voting rights for your investments and do not act for you in any legal proceedings, including bankruptcies or class actions involving securities held or previously held in your account. It is your responsibility to vote proxies for securities, exercise voting rights, and take any legal action pertaining to investments in your account.



Ordinarily, your custodian will forward proxies or other communications about investments in your account directly to you. We direct our Clients to contact their custodian if they do not receive proxies or other mailings about the investments in their accounts.

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**Item 7. Client Information Provided to Portfolio Managers**

Given that we are the sole investment adviser under the Program, all wrap client portfolios are managed internally by Winchester's portfolio managers who have access to wrap clients' account information. It is your responsibility to communicate to us when your financial situation changes. Our portfolio managers communicate regularly with our clients, so there will be opportunities to discuss your changing needs.

We will not provide your information to third parties other than to NFS, the custodian under the Program.

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**Item 8. Client Contact with Portfolio Managers**

We place no restrictions on your ability to contact the portfolio manager. You may contact your portfolio manager at any time.

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**Item 9. Additional Information*****A. Disciplinary Information and Other Financial Industry Activities and Affiliations*****Disciplinary Information**

We have no record of legal or disciplinary events that we consider to be material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. However, we have had a few disciplinary events regarding our broker-dealer business in the past.

First, In June 2003, NASD (now "FINRA") initiated regulatory action against us as a broker-dealer regarding NASD Rules 1120(A) and 2110. Without admitting or denying guilt, we resolved this matter through an Acceptance, Waiver & Consent on June 2, 2003. The sanction ordered was a monetary fine of \$2,500 which was paid on June 17, 2003.

In this regulatory action, Winchester was found to have not been in compliance with NASD Rules 1120(A) and 2110 in regard to the timeframe of the regulatory element of the continuing education requirement. Unknown to both Winchester and a registered representative of Winchester, the registered person of our firm had been deemed "inactive" while still performing "actively" for a six month period. The registered person's thirty years of experience was taken into consideration by the NASD and the minimum fine was imposed. We have taken steps to ensure that all continuing education requirements are followed and met by all registered representatives.

Second, on August 23, 2007, FINRA initiated regulatory action against us regarding TRACE late reporting. Without admitting or denying guilt, we resolved this matter through an Acceptance, Waiver & Consent on August 17, 2009. The sanction ordered was a monetary fine of \$7,500 which was paid on September 1, 2009.

Due to a limitation in our clearing agent's computer program, we inadvertently violated the TRACE 15-minute reporting window for corporate bond trades in 2007. The NFS computer application designed to divide an executed trade among several client accounts carried the "time stamp of execution," instead of the "time stamp of allocation." All initial street-side bond purchases were correctly reported to TRACE within the 15-minute timeframe. Violations of the TRACE reporting requirements occurred when the trades were allocated among client accounts later in the day. We have since worked with our clearing agent to put procedures in place to ensure that both our initial purchases and our subsequent allocations among client accounts are reported to TRACE with the correct time stamps.

Finally, in September 2011, FINRA initiated regulatory action against us regarding MSRB Rule G-8 - Books and Records to be Made and MSRB Rule G-14 - Reports of Sales or Purchases (together the "Rules"). Without admitting or denying guilt, we resolved this matter through an Acceptance, Waiver & Consent on September 28, 2011. The sanction ordered was a monetary fine of \$10,000 which was paid on October 5, 2011.

We were found to have not been in compliance with the MSRB Rules due to certain municipal transactions that were executed away from our clearing firm and not reported back to us in a timely fashion. Therefore, our subsequent capture and recording of execution times and our reports to the real time reporting system violated the 15-minute reporting requirement of the Rules. Because of these issues, and to mitigate the risk of this situation from being repeated, we no longer execute municipal transactions away from our clearing firm for accounts custodied at our clearing firm.

### **Broker-Dealers**

Winchester is registered as a broker-dealer with the SEC and FINRA and does effect securities transactions for compensation. As a broker-dealer, we will share in those commissions. Some of our portfolio managers' compensation directly relates to revenues from these sources. Both the Firm and our portfolio managers' receipt of brokerage commissions could give rise to a potential conflict of interest since our share of those commissions constitutes additional compensation beyond our Management Fee.

We provide recommendations and brokerage execution services to institutional clients. Our principal business is to provide investment advice and brokerage execution services. We split our time between our investment advisory business and our broker-dealer business equally.

### **Futures and Commodity Trading**

Neither we nor any of our management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, or commodity trading advisor.

### **Material Relationships**

As previously noted, we are also a broker-dealer registered with the SEC and a member of FINRA. Most of our investment employees are registered representatives of our broker-dealer.

We consider our relationship with our clearing firm, NFS, to be a material relationship since the majority of our advisory accounts are custodied at NFS. NFS provides us with transaction and reporting data that allow us to monitor our Client accounts.

### **Other Investment Advisors**

We do not recommend or select other investment advisers for its Clients.

### ***B. Code of Ethics, Interest in Client Transaction, Personal Trading, Review of Accounts, Client Referrals/ Other Compensation and Financial Information***

#### **Code of Ethics**

We have adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 of the Investment Advisers Act of 1940 that governs our employees’ personal trading. It also describes our policies regarding the protection of confidential information, including the review of the personal securities accounts of certain of our employees for evidence of manipulative trading, trading ahead of clients, and insider trading. The Code outlines our policies regarding trading restrictions, compliance training of personnel and recordkeeping.

All of our personnel, including directors, officers and employees, must put the interest of our Clients before their own personal interests and must act honestly and fairly in all respects in dealing with Clients in addition to complying with all federal and state securities laws.

A copy of our complete Code of Ethics is available upon request by contacting Marie Cusic at [mcusic@winchestergroupinc.com](mailto:mcusic@winchestergroupinc.com)

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

From time to time, our employees or related persons may purchase or sell securities also purchased or sold for Clients. To avoid conflicts of interest, none of these individuals will be permitted to receive a more favorable execution price from Winchester than that received by our Clients during the same trading period.

**Principal Transactions.** Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account, buys from or sells any security to any advisory client. We have a prohibition on trading out of our own inventory as principal and we do not maintain any proprietary brokerage accounts for trading purposes.

**Cross Transactions.** We do not engage in cross transactions, generally. In the event that we do engage in any such transactions, we will adhere to the requirements under the federal securities

laws which include gaining your prior approval as discussed below under Agency Cross Transactions.

**Agency Cross Transactions.** An agency cross transaction is a transaction in which an investment adviser acts as the broker for both the seller and purchaser of a security (and either the seller or the purchaser is a client). We may engage in agency cross transactions without obtaining your specific consent only under the following conditions:

- You have prospectively consented in writing to such trades, and we have disclosed, if applicable, that we will act as broker for, receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to such transactions;
- We send you a written confirmation of the transaction at or before the completion of the transaction. The confirmation must include:
  - a statement of the nature of the transaction;
  - the date the transaction took place;
  - an offer to furnish upon request, the time when the transaction took place;
  - the source and amount of any other remuneration received or to be received by us; provided that if, in the case of a purchase, we were not participating in a distribution, or in the case of a sale, we were not participating in a tender offer, the confirmation may state whether any remuneration has been or will be received and that the source and amount of such other remuneration will be furnished upon written request;
- We send you an annual written disclosure statement identifying the total number of agency cross transactions during the period of the statement and the total amount of all commissions or other remuneration received or to be received by us in connection with such transactions during the period.

**Transactions Between Client Accounts.** From time to time, we may seek to execute transactions between Client accounts (including rebalancing trades between client accounts). Transactions between Client accounts are not permitted if they would constitute principal trades or trades for which we or our affiliates are compensated as brokers unless the appropriate Client consent has been obtained. In addition, such trades will not be conducted with an ERISA account (including a private investment vehicle that has substantial benefit plan investors and is subject to ERISA).

### **Personal Trading**

The Code is designed to ensure that our employees conduct their personal securities transactions in such a manner as to avoid putting their own personal interests ahead of our Clients and to avoid conflicts of interest. The Code requires reporting of personal securities transactions by employees. Trading by employees is monitored at least quarterly under our Code of Ethics.

### **Personal Trading Contemporaneous with Client Transactions**

Conflicts of interest are created when one of our employees are trading in the same security as a Client. Client transactions will always take precedence over any Firm or employees'

transactions. Our employees are allowed to participate in aggregated orders with Clients when all parties receive the same average price.

### **Review of Accounts**

The timing and nature of account reviews are dictated by a variety of factors, including contributions or withdrawals of cash from a Client account, a substantial change in the market value of assets under management, a Client's request for information regarding the performance or structure of an account, and changes necessary to rebalance the portfolio to maintain client objectives and desired asset mix. Additionally, whenever transactions occur in a Client account, the account is reviewed the following day by both the portfolio manager and the administrative staff.

Reports to Clients. Periodic statements showing all transactions, money movements and security positions are provided directly to you by your chosen custodian. In addition, we can provide you with monthly and/or quarterly account appraisal reports upon request. We recommend that you compare your quarterly account statements from your custodian with any appraisals you receive from us.

### **Client Referrals and Other Compensation**

Client Referrals. We have no arrangements under which we or any related person compensate another for client referrals. Additionally, we do not receive any economic benefit from a person who is not a Client for providing advisory services to clients.

Compensation for Client Referrals. In 2011, we engaged a consultant to help gather institutional business. The consultant was not compensated since his compensation was based on a percentage of the fee generated on the new business and no new business was received. Accordingly, we no longer have any such arrangement with consultants.

### **Financial Information**

We do not require or solicit payment of more than \$1,200 in fees per Client six months or more in advance.

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

We have not been the subject of a bankruptcy petition at any time during the past ten years.

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## **Item 10. Requirements for State-Registered Advisers**

This Item is not applicable as we are an SEC registered advisor.

***Brochure Supplement***

**Irvin L. Cherashore**

**March 30, 2012**

**The Winchester Group, Inc.**  
780 Third Avenue, 16<sup>th</sup> Floor  
New York, NY 10017  
Tel: (212) 486-8181  
[www.winchestergroupinc.com](http://www.winchestergroupinc.com)

**This *brochure supplement* provides information about Irvin L. Cherashore that supplements the Winchester Group, Inc. (the “Registrant”) *firm brochure*. You should have received a copy of that *firm brochure*. Please contact Clare Nolan, at (212) 486-8181 if you did not receive the *firm brochure* or if you have any questions about the contents of this supplement.**

**Additional information about Irvin L. Cherashore is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## **Item 2. Educational Background and Business Experience**

**Name: Irvin L. Cherashore**

Year of Birth: 1935

Education:

Lehigh University – B.A. Government, 1957

University of Pennsylvania – Evening School of Accounts & Finance, 1958-1960

Career Summary:

Business Experience:

Chairman and Director, The Winchester Group, Inc., 1990 – Present

FINRA Licenses:

Series 7 – General Securities Representative

Series 24 – General Securities Principal

Series 63 – Uniform Securities Agent State Law Examination

In order to obtain these FINRA licenses, Mr. Cherashore successfully completed examinations administered by FINRA.

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## **Item 3. Disciplinary Information**

There are no legal or disciplinary matters that would be material to a client's or prospective client's evaluation of Mr. Cherashore.

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

Mr. Cherashore is a registered representative of our firm's brokerage. Some of Mr. Cherashore's compensation directly relates to revenues from broker-dealer activities. His receipt of brokerage commissions could give rise to a potential conflict of interest since his share of those commissions constitutes additional compensation beyond management fees.

Mr. Cherashore also serves as a member of the Board of Directors of Optica Technologies, Inc. ("Optica"). Optica is a private company located in Niwot, Colorado and provides products and professional services for the Enterprise Computing Environment. Mr. Cherashore does not receive any compensation for these activities.

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## **Item 5. Additional Compensation**

As stated previously, Mr. Cherashore does receive additional compensation for his role with our broker-dealer. This is the only additional compensation he receives.

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**Item 6. Supervision**

As Chairman of the Firm, Mr. Cherashore is in charge of the overall activities of our company. However, our supervised persons, including Mr. Cherashore, have their trading activity (personal and Client trading) monitored by our Chief Compliance Officer, Marie Cusic. Ms. Cusic may be reached at (212) 486-8181. Clare Nolan, Senior Vice President & Corporate Secretary also monitors all clients trading activity and reporting. Ms. Nolan may be reached at (212) 486-8181.



***Brochure Supplement***

**Thomas R. Settle**

**March 30, 2012**

**The Winchester Group, Inc.**  
780 Third Avenue, 16<sup>th</sup> Floor  
New York, NY 10017  
Tel: (212) 486-8181  
[www.winchestergroupinc.com](http://www.winchestergroupinc.com)

**This *brochure supplement* provides information about Thomas R. Settle that supplements the Winchester Group, Inc. (the “Registrant”) *firm brochure*. You should have received a copy of that *firm brochure*. Please contact Clare Nolan, at (212) 486-8181 if you did not receive the *firm brochure* or if you have any questions about the contents of this supplement.**

**Additional information about Thomas R. Settle is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## **Item 2. Educational Background and Business Experience**

**Name: Thomas R. Settle**

Year of Birth: 1941

Education:

Muskingum College – B.A. Economics, 1963

University of Pennsylvania Wharton School, M.B.A., 1965

Career Summary:

Business Experience:

Director, The Winchester Group, Inc., 1990 – Present

FINRA Licenses:

Series 4 – Registered Options Principal

Series 7 – General Securities Representative

Series 24 – General Securities Principal

Series 63 – Uniform Securities Agent State Law Examination

In order to obtain these FINRA licenses, Mr. Settle successfully completed examinations administered by FINRA.

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## **Item 3. Disciplinary Information**

There are no legal or disciplinary matters that would be material to a client's or prospective client's evaluation of Mr. Settle.

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

Mr. Settle is a registered representative of our broker-dealer. Some of Mr. Settle's compensation directly relates to revenues from broker-dealer commissions. His receipt of brokerage commissions could give rise to a potential conflict of interest since his share of those commissions constitutes additional compensation beyond management fees.

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## **Item 5. Additional Compensation**

As stated previously, Mr. Settle does receive additional compensation for his role with our broker-dealer. This is the only additional compensation he receives.

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**Item 6. Supervision**

Our Chairman, Irvin L. Cherashore, is responsible for supervising the advisory activities of Mr. Settle on behalf of the Winchester Group, Inc. Mr. Cherashore may be reached at (212) 486-8181.