

# ProFolio Capital Management LLC

## Firm Brochure - Form ADV Part 2A

*This brochure provides information about the qualifications and business practices of ProFolio Capital Management LLC. If you have any questions about the contents of this brochure, please contact us at (855) 776-3889 or by email at: [rich@profoliocapital.com](mailto:rich@profoliocapital.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 ProFolio Capital Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). ProFolio Capital Management LLC's CRD number is: 287708.*

311 Larkspur Lane  
Buda, TX 78610  
(855) 776-3889  
[rich@profoliocapital.com](mailto:rich@profoliocapital.com)  
<https://profoliocapital.com>

*Registration does not imply a certain level of skill or training.*

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## **Item 2: Material Changes**

ProFolio Capital Management LLC has not yet filed an annual updating amendment using the Form ADV Part 2A. Therefore there are no material changes to report.

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## **Item 4: Advisory Business**

### **A. Description of the Advisory Firm**

ProFolio Capital Management LLC (hereinafter “PCML”) is a Limited Liability Company organized in the State of Texas. The firm was formed in November 2016, and the principal owner is Richard Johnson.

### **B. Types of Advisory Services**

#### ***Robo-Advisory Portfolio Management Services***

PCML provides “robo-advisory” portfolio management services via an online interface. This entails the use of algorithm-based portfolio management advice, rather than in-person investment advice. These automated investment solutions are customized to each client and based on individual characteristics, such as the client’s age, risk tolerance, income, and current assets, among others.

#### ***Services Limited to Specific Types of Investments***

PCML generally limits its investment advice to mutual funds, fixed income securities, real estate funds (including REITs), equities, ETFs (including ETFs in the gold and precious metal sectors), treasury inflation protected/inflation linked bonds, commodities and non-U.S. securities. PCML may use other securities as well to help diversify a portfolio when applicable.

### **C. Client Tailored Services and Client Imposed Restrictions**

PCML provides online “robo-advisory” portfolio management. Client accounts are generally invested into a target allocation depending on the client’s individual profile. This automated approach factors in client financial situation and risk tolerance, although the algorithms used to provide advisory services are designed to be utilized by PCML across multiple clients. Clients may not impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs.

### **D. Wrap Fee Programs**

A wrap fee program is an investment program where the investor pays one stated fee that includes management fees, transaction costs, fund expenses, and other administrative fees. PCML does not participate in any wrap fee programs.

### **E. Assets Under Management**

PCML has the following assets under management:

Discretionary Amounts:	Non-discretionary Amounts:	Date Calculated:
\$0	\$0	February 2017

## Item 5: Fees and Compensation

### A. Fee Schedule

#### *Robo-Advisory Portfolio Management Services Fees*

Total Assets Under Management	Annual Fees
\$50,000 - AND UP	0.50%

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

Clients may terminate the agreement without penalty, for full refund of PCML's fees, within five business days of signing the Investment Advisory Contract. Thereafter, clients may terminate the Investment Advisory Contract with thirty days' written notice.

### B. Payment of Fees

#### *Payment of Portfolio Management Fees*

Robo-advisory portfolio management fees are withdrawn directly from the client's accounts with client's written authorization. Fees are paid quarterly.

### C. Client Responsibility For Third Party Fees

Clients are responsible for the payment of all third party fees (i.e. custodian fees, brokerage fees, mutual fund fees, transaction fees, etc.). Those fees are separate and distinct from the fees and expenses charged by PCML. Please see Item 12 of this brochure regarding broker-dealer/custodian.

### D. Prepayment of Fees

PCML collects fees in advance. Refunds for fees paid in advance will be returned within fourteen days to the client via check, or return deposit back into the client's account.

For all asset-based fees paid in advance, the fee refunded will be equal to the balance of the fees collected in advance minus the daily rate\* times the number of days elapsed in the billing period up to and including the day of termination. (\*The daily rate is calculated by dividing the annual asset-based fee rate by 365.)

#### **E. Outside Compensation For the Sale of Securities to Clients**

Neither PCML nor its supervised persons accept any compensation for the sale of investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

PCML does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

### **Item 7: Types of Clients**

PCML generally provides advisory services to the following types of clients:

- ❖ Individuals
- ❖ High-Net-Worth Individuals

There is an account minimum of \$50,000, which may be waived by PCML in its discretion.

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

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

##### *Methods of Analysis*

PCML's methods of analysis include Modern portfolio theory and Quantitative analysis.

**Modern portfolio theory** is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various asset.

**Quantitative analysis** deals with measurable factors as distinguished from qualitative considerations such as the character of management or the state of employee morale, such as the value of assets, the cost of capital, historical projections of sales, and so on.

##### *Investment Strategies*

Portfolios are constructed using Modern Portfolio Theory and tactical asset allocation. Modern Portfolio Theory portfolios are rebalanced annually. The average holding period of tactically allocated portfolios is 8 to 10 months.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **B. Material Risks Involved**

### *Methods of Analysis & Investment Strategies*

**Modern portfolio theory** assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

**Quantitative analysis** Investment strategies using quantitative models may perform differently than expected as a result of, among other things, the factors used in the models, the weight placed on each factor, changes from the factors' historical trends, and technical issues in the construction and implementation of the models.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **C. Risks of Specific Securities Utilized**

Clients should be aware that there is a material risk of loss using any investment strategy. The investment types listed below (leaving aside Treasury Inflation Protected/Inflation Linked Bonds) are not guaranteed or insured by the FDIC or any other government agency.

**Mutual Funds:** Investing in mutual funds carries the risk of capital loss and thus you may lose money investing in mutual funds. All mutual funds have costs that lower investment returns. The funds can be of bond "fixed income" nature (lower risk) or stock "equity" nature.

**Equity** investment generally refers to buying shares of stocks in return for receiving a future payment of dividends and/or capital gains if the value of the stock increases. The



value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environments.

**Fixed income** investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities, although individual bonds may be the best known type of fixed income security. In general, the fixed income market is volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation linked bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal. Risks of investing in foreign fixed income securities also include the general risk of non-U.S. investing described below.

**Exchange Traded Funds (ETFs):** An ETF is an investment fund traded on stock exchanges, similar to stocks. Investing in ETFs carries the risk of capital loss (sometimes up to a 100% loss in the case of a stock holding bankruptcy). Areas of concern include the lack of transparency in products and increasing complexity, conflicts of interest and the possibility of inadequate regulatory compliance. Precious Metal ETFs (e.g., Gold, Silver, or Palladium Bullion backed “electronic shares” not physical metal) specifically may be negatively impacted by several unique factors, among them (1) large sales by the official sector which own a significant portion of aggregate world holdings in gold and other precious metals, (2) a significant increase in hedging activities by producers of gold or other precious metals, (3) a significant change in the attitude of speculators and investors.

**Real estate** funds (including REITs) face several kinds of risk that are inherent in the real estate sector, which historically has experienced significant fluctuations and cycles in performance. Revenues and cash flows may be adversely affected by: changes in local real estate market conditions due to changes in national or local economic conditions or changes in local property market characteristics; competition from other properties offering the same or similar services; changes in interest rates and in the state of the debt and equity credit markets; the ongoing need for capital improvements; changes in real estate tax rates and other operating expenses; adverse changes in governmental rules and fiscal policies; adverse changes in zoning laws; the impact of present or future environmental legislation and compliance with environmental laws.

**Commodities** are tangible assets used to manufacture and produce goods or services. Commodity prices are affected by different risk factors, such as disease, storage capacity, supply, demand, delivery constraints and weather. Because of those risk factors, even a well-diversified investment in commodities can be uncertain.

**Non-U.S.** securities present certain risks such as currency fluctuation, political and economic change, social unrest, changes in government regulation, differences in accounting and the lesser degree of accurate public information available.

Past performance is not indicative of future results. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There are no criminal or civil actions to report.

### **B. Administrative Proceedings**

There are no administrative proceedings to report.

### **C. Self-regulatory Organization (SRO) Proceedings**

There are no self-regulatory organization proceedings to report.

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

### **A. Registration as a Broker/Dealer or Broker/Dealer Representative**

Neither PCML nor its representatives are registered as, or have pending applications to become, a broker/dealer or a representative of a broker/dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither PCML nor its representatives are registered as or have pending applications to become either a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor or an associated person of the foregoing entities.

### **C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

Neither PCML nor its representatives have any material relationships to this advisory business that would present a possible conflict of interest.

### **D. Selection of Other Advisers or Managers and How This Adviser is Compensated for Those Selections**

PCML does not utilize nor select third-party investment advisers. All assets are managed by PCML management.

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

### **A. Code of Ethics**

PCML has a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance, Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. PCML's Code of Ethics is available free upon request to any client or prospective client.

### **B. Recommendations Involving Material Financial Interests**

PCML does not recommend that clients buy or sell any security in which a related person to PCML or PCML has a material financial interest.

### **C. Investing Personal Money in the Same Securities as Clients**

From time to time, representatives of PCML may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of PCML to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. PCML will always document any transactions that could be construed as conflicts of interest and will never engage in trading that operates to the client's disadvantage when similar securities are being bought or sold.

### **D. Trading Securities At/Around the Same Time as Clients' Securities**

From time to time, representatives of PCML may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of PCML to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest; however, PCML will never engage in trading that operates to the client's disadvantage if representatives of PCML buy or sell securities at or around the same time as clients.

## **Item 12: Brokerage Practices**

### **A. Factors Used to Select Custodians and/or Broker/Dealers**

Custodians/broker-dealers will be recommended based on PCML's duty to seek "best execution," which is the obligation to seek execution of securities transactions for a client on the most favorable terms for the client under the circumstances. Clients will not necessarily pay the lowest commission or commission equivalent, and PCML may also consider the market expertise and research access provided by the broker-dealer/custodian, including but not limited to access to written research, oral communication with analysts, admittance to research conferences and other resources provided by the brokers that may aid in PCML's research efforts. PCML will never charge a premium or commission on transactions, beyond the actual cost imposed by the broker-dealer/custodian.

PCML will require clients to use Folio Institutional.

#### ***1. Research and Other Soft-Dollar Benefits***

While PCML has no formal soft dollars program in which soft dollars are used to pay for third party services, PCML may receive research, products, or other services from custodians and broker-dealers in connection with client securities transactions ("soft dollar benefits"). PCML may enter into soft-dollar arrangements consistent with (and not outside of) the safe harbor contained in Section 28(e) of the Securities Exchange Act of 1934, as amended. There can be no assurance that any particular client will benefit from soft dollar research, whether or not the client's transactions paid for it, and PCML does not seek to allocate benefits to client accounts proportionate to any soft dollar credits generated by the accounts. PCML benefits by not having to produce or pay for the research, products or services, and PCML will have an incentive to recommend a broker-dealer based on receiving research or services. Clients should be aware that PCML's acceptance of soft dollar benefits may result in higher commissions charged to the client.

#### ***2. Brokerage for Client Referrals***

PCML receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

#### ***3. Clients Directing Which Broker/Dealer/Custodian to Use***

PCML will require clients to use a specific broker-dealer to execute transactions. Not all advisers require clients to use a particular broker-dealer.

## **B. Aggregating (Block) Trading for Multiple Client Accounts**

If PCML buys or sells the same securities on behalf of more than one client, then it may (but would be under no obligation to) aggregate or bunch such securities in a single transaction for multiple clients in order to seek more favorable prices, lower brokerage commissions, or more efficient execution. In such case, PCML would place an aggregate order with the broker on behalf of all such clients in order to ensure fairness for all clients; provided, however, that trades would be reviewed periodically to ensure that accounts are not systematically disadvantaged by this policy. PCML would determine the appropriate number of shares and select the appropriate brokers consistent with its duty to seek best execution, except for those accounts with specific brokerage direction (if any).

## **Item 13: Review of Accounts**

### **A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews**

Robo-advisory portfolio management accounts are not reviewed by PCML, save for automated allocation revisions. Clients are encouraged to update Acorns of any change in their objectives, risk tolerance, or other pertinent information.

### **B. Factors That Will Trigger a Non-Periodic Review of Client Accounts**

Robo-advisory portfolio management accounts do not undergo non-periodic review by PCML, allocations will change in accordance with the portfolio management software utilized by PCML and changes to the client's profile.

### **C. Content and Frequency of Regular Reports Provided to Clients**

Robo-advisory portfolio management clients will receive at least quarterly a written report that details the client's account including assets held and asset value, which report will come from the custodian and at least quarterly a written report from PCML.

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

### **A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes)**

PCML does not receive any economic benefit, directly or indirectly from any third party for advice rendered to PCML's clients.

## **B. Compensation to Non – Advisory Personnel for Client Referrals**

PCML does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

## **Item 15: Custody**

When advisory fees are deducted directly from client accounts at client's custodian, PCML will be deemed to have limited custody of client's assets and must have written authorization from the client to do so. Clients will receive all account statements and billing invoices that are required in each jurisdiction, and they should carefully review those statements for accuracy.

## **Item 16: Investment Discretion**

PCML provides discretionary investment advisory services to clients. The advisory contract established with each client sets forth the discretionary authority for trading. Where investment discretion has been granted, PCML generally manages the client's account and makes investment decisions without consultation with the client as to when the securities are to be bought or sold for the account, the total amount of the securities to be bought/sold, what securities to buy or sell, or the price per share.

## **Item 17: Voting Client Securities (Proxy Voting)**

PCML will not ask for, nor accept voting authority for client securities. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

## **Item 18: Financial Information**

### **A. Balance Sheet**

PCML neither requires nor solicits prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore is not required to include a balance sheet with this brochure.

### **B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Neither PCML nor its management has any financial condition that is likely to reasonably impair PCML's ability to meet contractual commitments to clients.

### **C. Bankruptcy Petitions in Previous Ten Years**

PCML has not been the subject of a bankruptcy petition in the last ten years.