

**Item 1: Cover Page**



# SMITH CAPITAL

## **Part 2A of Form ADV Firm Brochure**

March 26, 2019

**Smith Capital Management, Inc.**

SEC File No. 801-21681

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This brochure provides information about the qualifications and business practices of Smith Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 501-228-0040 or via email to [linda@smithcap.com](mailto:linda@smithcap.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. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

Additional information about Smith Capital Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the 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. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

Smith Capital will no longer vote proxies on behalf of clients. Information on the firm's policy regarding voting client securities is disclosed in Item 17 of this Brochure.

## Item 3: Table of Contents

Item 1: Cover Page.....	1
Item 2: Material Changes.....	2
Item 3: Table of Contents.....	3
Item 4: Advisory Business.....	5
A. Smith Capital Management, Inc.....	5
B. Advisory Services Offered .....	5
C. Client-Tailored Services and Client-Imposed Restrictions.....	7
D. Wrap Fee Programs.....	7
E. Client Assets Under Management .....	7
Item 5: Fees and Compensation .....	8
A. Methods of Compensation and Fee Schedule .....	8
B. Client Payment of Fees.....	9
C. Additional Client Fees Charged .....	9
D. External Compensation for the Sale of Securities to Clients.....	10
Item 6: Performance-Based Fees and Side-by-Side Management.....	11
Item 7: Types of Clients.....	12
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss .....	13
A. Methods of Analysis and Investment Strategies .....	13
B. Investment Strategy and Method of Analysis Material Risks .....	17
C. Security-Specific Material Risks .....	20
Item 9: Disciplinary Information.....	21
A. Criminal or Civil Actions.....	21
B. Administrative Enforcement Proceedings.....	21
C. Self-Regulatory Organization Enforcement Proceedings .....	21
Item 10: Other Financial Industry Activities and Affiliations .....	22
A. Broker-Dealer or Representative Registration .....	22
B. Futures or Commodity Registration.....	22
C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest.....	22

D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest.....	22
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	23
A. Code of Ethics Description.....	23
B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest.....	23
C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest.....	23
D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest.....	24
Item 12: Brokerage Practices .....	25
A. Factors Used to Select Broker-Dealers for Client Transactions.....	25
B. Aggregating Securities Transactions for Client Accounts.....	29
Item 13: Review of Accounts .....	32
A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved.....	32
B. Review of Client Accounts on Non-Periodic Basis.....	32
C. Content of Client-Provided Reports and Frequency.....	32
Item 14: Client Referrals and Other Compensation.....	33
A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest.....	33
B. Advisory Firm Payments for Client Referrals.....	33
Item 15: Custody .....	34
Item 16: Investment Discretion.....	36
Item 17: Voting Client Securities.....	37
Item 18: Financial Information.....	38
A. Balance Sheet.....	38
B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients .....	38
C. Bankruptcy Petitions During the Past Ten Years .....	38

## Item 4: Advisory Business

### A. Smith Capital Management, Inc.

Smith Capital Management, Inc. ("SCM" or "the firm") is an Arkansas-based investment adviser registered with the Securities and Exchange Commission (SEC). SCM was initially registered with the SEC on June 26, 1984. We have only one place of business (in Little Rock, AR).

The firm is principally owned by Stephen Chaffin, Jay White, and Harold Crafton. The firm's principal executive officers are as follows:

- Stephen Chaffin, President and Managing Principal
- Jay White, Executive Vice President and Chief Investment Officer
- John Carroll, Senior Vice President and Financial Advisor
- Linda Mobley, Chief Compliance Officer

### B. Advisory Services Offered

#### B.1. Portfolio Management Services

SCM provides portfolio management services based on the client's specific individual needs and circumstances. To do so, we meet with each client to determine the client's investment goals and objectives; time horizons; risk tolerances; income, net worth, and tax status; family obligations; as well as desires for retirement and other "life goals."

Please see Items 12 and 16 below for additional information on Brokerage Practices and Investment Discretion.

In addition to providing SCM with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify the firm of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. SCM will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. SCM encourages our clients to meet with us at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

#### B.2. Financial Planning Services

We may include financial planning services as part of our overall investment management services or, depending upon the complexity of the plan, the firm reserves the right to charge an additional fee as described below in Item 5. We may also provide financial planning as a standalone service.

Our services can encompass any or all of the following activities:

- Cash flow planning

- Risk management and insurance planning
- Retirement planning
- Investment planning
- Estate, gift, and wealth transfer planning
- Elder planning
- Charitable planning
- Education planning
- Tax planning
- Business planning

### **B.3. Retirement Consulting Services**

SCM provides its services consistent with the terms and conditions of an Investment Policy Statement to be prepared by SCM for review and adoption by the plan. SCM encourages plan sponsors to review the Investment Policy Statement with SCM on an annual basis to determine if any changes are required. During the interim periods, in the event that the plan's circumstances, financial situation or investment objective(s) change, it is the plan sponsor's responsibility to notify SCM accordingly for the purpose of SCM reviewing/ evaluating/ revising the Investment Policy Statement.

Consistent with the parameters of the Investment Policy Statement, SCM shall provide the plan with an initial (and ongoing) diversified platform of plan investment options from which plan participants may choose (which *may* include, at the discretion of the SCM, specific asset allocation programs devised and managed by SCM based upon various investment objectives). SCM shall monitor the plan investment options on an ongoing and continuous basis, and shall be responsible for making additions/deletions thereto. The plan sponsor may, in writing, direct SCM not to include among the plan investment options any asset allocation programs devised and managed by SCM.

In addition, SCM offers plan participants general informational meetings, to include materials which describe the various investment alternatives available under the PLAN, information about investing generally, including information about different types of investments, information about different investment allocation strategies, including information about historical returns, and interactive materials designed to help participants identify appropriate investment strategy.

Unless specifically subject to a separate written agreement executed by both parties, the plan acknowledges that SCM's services shall not include any plan administration, legal or accounting services, or proxy voting services.

The independent custodian and/or third-party administrator shall provide the plan and/or its participants with periodic investment reports regarding plan assets and/or the underlying individual participant accounts. The plan sponsor will receive quarterly reports regarding the performance of the plan investment options.

**B.4. Private Fund**

The firm serves as the Managing Member and provides discretionary asset management services to a proprietary private investment fund, Fixed Opportunity Partners I, LLC. We may recommend you consider investing in one or more private funds we sponsor and manage. Any such recommendation would be outside the scope of our services to you. Any decision to invest would be solely yours. In the event you elect to invest in any private fund, the capital you contribute to any private fund would not be part of the account or otherwise subject to the terms of your advisory agreement. Any solicitation by us concerning a private fund presents a conflict of interest, which is described in Item 10 of this brochure.

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

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

**D. Wrap Fee Programs**

SCM participates in the Schwab Institutional Intelligent Portfolios™ program (the "Program"), a wrap fee program sponsored by Charles Schwab & Co., Inc. ("CS&Co"). For certain accounts, SCM may provide portfolio management services through the Program, an automated, online investment management platform for use by independent investment advisors and sponsored by Schwab Performance Technologies, Inc. ("SPT").

We do not receive a portion of a wrap fee for our services to clients through the Program. Clients do not pay fees to SPT in connection with the Program, but we charge clients a fee for our services as described below under Item 5: Fees and Compensation. Our fees are not set or supervised by SPT. Clients do not pay brokerage commissions or any other fees to CS&Co as part of the Program. Schwab does receive other revenues in connection with the Program, as described in the Program Disclosure Brochure.

We do not pay SPT fees for its services in the Program so long as we maintain \$100 million in client assets in accounts at CS&Co that are not enrolled in the Program. If we do not meet this condition, then we pay SPT an annual fee of 0.10% (10 basis points) on the value of our clients' assets in the Program. This fee arrangement gives us an incentive to recommend or require that our clients with accounts not enrolled in the Program be maintained with CS&Co.

Please refer to the Smith Capital Part 2A: Schwab Institutional Intelligent Portfolios™ Program Brochure for further information regarding SCM's participation in the Program.

**E. Client Assets Under Management**

As of December 31, 2018, SCM manages \$459,416,743 of discretionary assets (which includes \$4,674 of Schwab Institutional Intelligent Portfolio assets) and \$4,052,371 of non-discretionary assets.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Portfolio Management Services

Portfolio management services are charged an asset-based fee calculated as a percentage of the value of the managed assets and vary by the types of securities used in the portfolio, according to the following fee schedule, which represents SCM's maximum fees for individual services. All fees are negotiable.

##### **Balanced Accounts (Combination of Equities and Fixed Income):**

Up to \$1,000,000	0.875%
\$1,000,001 - \$3,000,000	0.75%
Over \$3,000,000	Negotiable

##### **Equities (mutual funds, exchange traded funds, and individual stocks)**

Up to \$500,000	1.25%
\$500,001 - \$1,000,000	1.00%
\$1,000,001 - \$3,000,000	0.875%
Over \$3,000,000	Negotiable

##### **Fixed Income (bond mutual funds and exchange traded funds, and individual bonds):**

Up to \$3,000,000	0.50%
Over \$3,000,000	Negotiable

##### **Index Fund Management (ETFs):**

Up to and over \$3,000,000	0.50%
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##### **ERISA Accounts:**

Up to and over \$3,000,000	0.875%*
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\*Negotiable

We may impose a minimum fee (per quarter) of \$25 per account. Please be advised that given the disparity in fees between the different categories of investments noted above in our fee schedule, SCM may be viewed as having an economic incentive to recommend those products or services that yield a higher economic benefit to SCM. Although SCM strives to place its clients' interests first, clients should be aware of this conflict.

Asset-based fees are always subject to the investment advisory agreement between the client and SCM. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions and withdrawals over 3% of the portfolio's billable balance are prorated for the quarter in which the change occurs.



### **A.2. Financial Planning Services**

Financial planning fees will be billed at the rate of \$200 per hour for evaluation, analysis, and preparation of reports. SCM will provide the prospective client with an estimate of the total time involved in preparing the plan prior to finalizing the financial planning agreement. The client will be billed directly for such services. Invoices will be mailed out on a periodic basis reflecting completed work performed. Clients seeking to terminate this service must do so in writing.

### **A.3. Consulting and Miscellaneous Services**

We may offer contract services on a case-by-case basis. The rate may be charged on an hourly basis or a contracted amount. The rate can vary, based upon the duties performed. A written proposal of the services to be provided and fees charged for those services will be agreed upon by both the advisor and the client.

### **A.4. Investment Adviser/Managing Member to the Private Fund**

Fees for private fund management are negotiated and memorialized in a written agreement between the fund adviser and fund issuer. SCM manages a proprietary private fund as further disclosed in Item 10 of this brochure.

## **B. Client Payment of Fees**

SCM generally requires fees to be prepaid on a quarterly basis. Advisory fees are typically paid to SCM via direct debit of your custodial account as outlined in our advisory agreement. As an alternative, we can invoice you and you can pay by check. When directly debiting fees, we will send to you a worksheet showing the assets on which our fees are based, the rate you are being charged, the minimum quarterly fee (if applicable), and the total fee due. At the same time, we will send a debit request to the third-party custodian. The custodian will debit the account and remit to us the fee due.

SCM will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account. The client is responsible for verifying the accuracy of the fee calculation as the client's custodian will not verify the calculation.

An account may be terminated for any reason by either party by delivering 30 days' written notice, or verbally, followed up with written notification. Upon termination, any unearned, prepaid fees will be promptly refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

## **C. Additional Client Fees Charged**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, private placement, pooled investment vehicles, broker-dealers, and custodians retained by clients. Such fees and expenses

are described in each exchange-traded fund and mutual fund's prospectus, each private placement or pooled investment vehicle's confidential offering memoranda, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using SCM may be precluded from using certain mutual funds because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

#### **D. External Compensation for the Sale of Securities to Clients**

SCM advisory professionals are compensated primarily through a salary and bonus structure. SCM is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products with respect to managed advisory assets.

For its private fund, the firm may be paid management fees and performance-based fees. Such performance-based fees create an economic incentive for the investment manager to take additional risks in the management of the fund portfolio that may be in conflict with the client's current investment objectives and tolerance for risk. Please refer to Item 6 for more information on performance-based fees.

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

SCM is the managing member and investment adviser of a private fund. Such private fund is structured to pay a management fee and performance-based fee. As a result, SCM has an economic incentive to:

- Allocate more favorable investment opportunities to its proprietary private fund versus other SCM advisory clients.
- Take additional risks in the management of the fund to try and obtain greater profits.
- Allocate more time and effort in the management of the private fund versus the time allocated to other SCM advisory clients.

Investors in the private fund with performance-based fees should be aware that these arrangements may create an incentive for SCM to (i) make investments which may be riskier or more speculative than those which would be made under a different fee arrangement, (ii) allocate more time in the management of the private fund with performance fee provisions, and (iii) favor the private fund with performance-based fee structures over other accounts in the allocation of investment opportunities. SCM strives to ensure that investments are made solely in the clients' best interests, and that all clients are treated fairly and equitably.

## Item 7: Types of Clients

We provide our services to:

- Individuals, including high net worth individuals
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations
- Corporations and other business entities (such as LLCs, LLPs, family limited partnerships)
- Pooled investment vehicles – private fund

We suggest (subject to negotiation) that a minimum account size to engage our services be at least \$500,000. To reach this threshold, accounts for one relationship may be “householded.” Conditions and restrictions regarding the private fund are contained in the fund’s private placement memorandum and subscription documents.

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

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

#### **A.1. Methods of Analysis**

SCM uses a variety of sources of data to conduct its economic, investment and market analysis. These sources include financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

SCM and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to derive the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, SCM reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. SCM may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **A.2. Investment Strategies**

Strategies may include:

- Long term purchases (over 1-year hold)
- Short term purchases (under 1 year)
- Trading (securities purchased and sold within 30 days)
- Short sales in individual securities

- Margin (or leverage – borrowing from your broker custodian, which increases your overall costs as you will pay interest on the margin loan)
- Option writing (covered options, uncovered and spreading strategies)
- Private funds, including the Fund (Fixed Opportunity Partners)

In addition, SCM has implemented an Investment Committee that determines the securities to be recommended to our clients. Members of the Committee include:

- Stephen Chaffin, President and Managing Principal
- Jay White, Principal and Chief Investment Officer
- John Carroll, Senior Vice President and Financial Advisor
- Matthew Chaffin, Financial Advisor
- Linda Mobley, Chief Compliance Officer

### **A.3. Mutual Funds and Exchange Traded Funds, Individual Securities, and Pooled Investment Vehicles**

A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, individual securities (including fixed-income securities), and pooled investment vehicles is set forth below.

SCM has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform or distribute research of individual securities
- perform billing and certain other administrative tasks

SCM may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, and pooled investment vehicles to clients as appropriate under the circumstances.

SCM reviews certain quantitative and qualitative criteria related to mutual funds and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a mutual fund evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- the fund's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in selecting/recommending mutual funds include the investment objectives and/or management style and philosophy of a mutual fund; a mutual fund's consistency of investment style; and employee turnover and efficiency and capacity.

Quantitative and qualitative criteria related to mutual funds are reviewed by SCM on a quarterly basis or such other interval as appropriate under the circumstances. In addition, mutual funds are reviewed to determine the extent to which their investments reflect efforts to time the

market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund by SCM (both of which are negative factors in implementing an asset allocation structure).

SCM may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds utilized. SCM will endeavor to obtain equal treatment for its clients with funds, but cannot assure equal treatment.

SCM will regularly review the activities of mutual funds utilized for the client. Clients that invest in mutual funds should first review and understand the disclosure documents of those mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

### **A.3. Material Risks of Investment Instruments**

SCM generally tailors its portfolio management to the individual needs of its clients and may effect transactions in the following types of securities:

- Equity securities
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities
- Municipal securities
- Private placements
- Pooled investment vehicles
- Variable annuities

#### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

**A.2.b. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

**A.2.c. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

**A.2.d. Fixed Income Securities**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds have liquidity and currency risk.

**A.2.e. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax



revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.2.f. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **A.2.g. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, the firm will be unable to monitor or verify the accuracy of such performance information.

#### **A.2.h. Variable Annuities**

Variable Annuities are long-term financial products designed for retirement purposes. In essence, annuities are contractual agreements in which payment(s) are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. There are contract limitations and fees and charges associated with annuities, administrative fees, and charges for optional benefits. They also may carry early withdrawal penalties and surrender charges, and carry additional risks such as the insurance carrier's ability to pay claims. Moreover, variable annuities carry investment risk similar to mutual funds. Investors should carefully review the terms of the variable annuity contract before investing.

## **B. Investment Strategy and Method of Analysis Material Risks**

Our investment strategy is custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

### **B.1. Margin Leverage**

Although SCM, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, and, in very limited circumstances, SCM will utilize leverage. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.2. Short-Term Trading**

Although SCM, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.3. Short Selling**

SCM generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

#### **B.4. Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends, and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

#### **B.5. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

SCM as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading

##### **B.5.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the-money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

##### **B.5.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance) and as a result can expose the investor to significant loss.

#### **B.5.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance) and as a result can expose the investor to significant loss.

#### **B.5.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

### **C. Security-Specific Material Risks**

Investments in securities carry the potential for a risk of loss of the assets that we manage for you.

To be clear: Your decision to invest in securities (and allow SCM to manage those assets) carries the potential for a loss of your invested amount or any appreciation of your holdings that have not been realized (those not sold to lock in the profit). Losses in your portfolio(s) under our management are a potential event that you should be prepared to bear.

We do not represent to you (or any Client), either directly or indirectly, a level of performance or a representation that our professional services will not result in a loss to your invested assets. We do our best as a fiduciary and professional investment adviser to manage your assets consistent with your stated investment goals and objectives (through our portfolio management services). However, losses cannot be prevented.

## **Item 9: Disciplinary Information**

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

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

Neither SCM nor its affiliates, employees, or independent contractors are registered broker-dealers and do not have an application to register pending.

### **B. Futures or Commodity Registration**

Neither SCM nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **C.1. Fixed Opportunity Partners I, LLC**

SCM is the Managing Member and investment adviser to a private fund, Fixed Opportunity Partners I, LLC. SCM may recommend, on a non-discretionary basis, that the client consider investment in the private fund, the terms and conditions for investment in which (including risks, liquidity constraints, and fees/compensation) are set forth in the private fund's offering documents.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

SCM does not recommend separate account managers or other investment products in which it receives any form of referral or solicitor compensation from the separate account manager or client.

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

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

In accordance with the Advisers Act, SCM has adopted policies and procedures designed to detect and prevent insider trading. In addition, SCM has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of SCM's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the chief compliance officer of SCM. SCM will send clients a copy of its Code of Ethics upon written request.

SCM has policies and procedures in place to ensure that the interests of its clients are given preference over those of SCM, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

SCM does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, SCM does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

SCM, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which SCM specifically prohibits. SCM has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account

- prohibit employees from personally benefitting by causing a client to act, or fail to act, in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow SCM's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

SCM, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other SCM clients. SCM will make a reasonable attempt to trade securities in client accounts at the same time or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of SCM to place the clients' interests above those of SCM and its employees.



## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

SCM may recommend that clients establish brokerage accounts with Charles Schwab & Co., Inc., or Crews and Associates (collectively "custodian"), FINRA registered broker-dealers, members SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although SCM may recommend that clients establish accounts at the custodian, it is the client's decision to custody assets with the custodian. SCM is independently owned and operated and not affiliated with the custodian. For SCM client accounts maintained in its custody, the custodian generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into custodian accounts.

SCM considers the financial strength, reputation, operational efficiency, cost, execution capability, level of customer service, and related factors in recommending broker-dealers or custodians to advisory clients.

In certain instances and subject to approval by SCM, SCM will recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by SCM will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

##### A.1.a. How We Select Brokers/Custodians to Recommend

SCM seeks to recommend a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors including, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)

- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### **A.1.b. Client's Custody and Brokerage Costs**

For client accounts that the firm maintains, the custodian generally does not charge clients separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into the custodian's accounts. The custodian's commission rates applicable to the firm's client accounts were negotiated based on the firm's commitment to maintain a certain minimum amount of client assets at the custodian. This commitment benefits the client because the overall commission rates paid are lower than they would be if the firm had not made the commitment. In addition to commissions, the custodian charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, the firm has the custodian execute most trades for the account.

#### **A.1.c. Soft Dollar Arrangements**

SCM does not utilize soft dollar benefits.

#### **A.1.d. Institutional Trading and Custody Services**

The custodian provides SCM with access to its institutional trading and custody services, which are typically not available to the custodian's retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at a particular custodian. The custodian's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

#### **A.1.e. Other Products and Services**

Custodian also makes available to SCM other products and services that benefit SCM but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of SCM's accounts, including accounts not maintained

at custodian. The custodian may also make available to SCM software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of SCM's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

The custodian may also offer other services intended to help SCM manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

The custodian may also provide other benefits such as educational events or occasional business entertainment of SCM personnel. In evaluating whether to recommend that clients custody their assets at the custodian, SCM may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

#### **A.1.f. Independent Third Parties**

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to SCM. The custodian may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to SCM.

#### **A.1.g. Additional Compensation Received from Custodians**

SCM may participate in institutional customer programs sponsored by broker-dealers or custodians. SCM may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between SCM's participation in such programs and the investment advice it gives to its clients, although SCM receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving SCM participants

- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to SCM by third-party vendors

The custodian may also pay for business consulting and professional services received by SCM's related persons, and may pay or reimburse expenses (including client transition expenses, travel, lodging, meals and entertainment expenses for SCM's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit SCM but may not benefit its client accounts. These products or services may assist SCM in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help SCM manage and further develop its business enterprise. The benefits received by SCM or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

SCM also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require SCM to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, SCM will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by SCM's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for SCM's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, SCM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by SCM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence SCM's recommendation of broker-dealers for custody and brokerage services.

#### **A.1.h. The Firm's Interest in Custodian's Services**

The availability of these services from the custodian benefits the firm because the firm does not have to produce or purchase them. The firm does not have to pay for the custodian's services so long as a certain minimum of client assets is kept in accounts at the custodian. This minimum of client assets may give the firm an incentive to recommend that clients maintain their accounts with the custodian based on the firm's interest in receiving the custodian's services that benefit the firm's business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of client transactions. This is a potential conflict of interest. The firm believes, however, that the selection of the custodian

as custodian and broker is in the best interest of clients. It is primarily supported by the scope, quality, and price of the custodian's services and not the custodian's services that benefit only the firm.

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

SCM does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **A.3. Directed Brokerage**

### **A.3.a. SCM Recommendations**

SCM primarily recommends two custodians for clients' funds and securities and to execute securities transactions on its clients' behalf – Charles Schwab, and Crews and Associates.

### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct SCM to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage SCM derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. SCM loses the ability to aggregate trades with other SCM advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

SCM may recommend that clients establish brokerage accounts with Schwab, a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Such accounts will be prime broker eligible so that if and when the need arises to effect securities transactions at broker-dealers ("executing brokers") other than with the client's current custodian, such custodian will accept delivery or deliver the applicable security from/to the executing broker. Schwab charges a "trade away" fee which is charged against the client account for each trade away occurrence. Other custodians have their own policies concerning prime broker accounts and trade away fees. Clients are directed to consult their current custodian for their policies and fees.

SCM, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the amount of such securities, the executing broker, and the commission rates to be paid to effect such transactions. SCM recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. SCM will follow a process in an attempt to ensure that it is seeking

to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, SCM seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of SCM's knowledge, these custodians provide high-quality execution, and SCM's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, SCM believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

## **B.2. Security Allocation**

Since SCM may be managing accounts with similar investment objectives, SCM may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by SCM in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

SCM's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. SCM will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

SCM's advice to certain clients and entities and the actions of SCM for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of SCM with respect to a particular

investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of SCM to or on behalf of other clients.

### **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if SCM believes that a larger size block trade would lead to best overall price for the security being transacted.

### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

SCM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if SCM determines that such arrangements are no longer in the best interest of its clients.

### **B.5. Trade Errors**

From time-to-time SCM may make an error in submitting a trade order on the client's behalf. When this occurs, SCM may place a correcting trade with the broker-dealer. If an investment gain results from the correcting trade, the gain will remain in client's account unless the same error involved other client account(s) that should have received the gain, it is not permissible for client to retain the gain, or SCM confers with client and client decides to forego the gain (e.g., due to tax reasons).

If the gain does not remain in client's account and Schwab is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, SCM will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in client's account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in client's account, they may be "netted."

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

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

Client accounts are reviewed monthly by the advisor assigned to the individual client's account. We will review your account for consistency between your investment goals (as compared to the current asset allocation). We also conduct, on a daily basis, account maintenance reviews looking at cash available for income needs; deposits or withdrawals into or from an account; interest payments received (or due); bond maturities and trade settlements, etc. We monitor securities (equities and equivalents, mutual funds and fixed income securities) maintained in our core portfolio (models).

Financial plans are not reviewed, per se; however, when client meetings occur, topics covered under our portfolio management / financial planning services may be reviewed as necessary.

We recommend at least an annual, in-person meeting with all of our clients.

### **B. Review of Client Accounts on Non-Periodic Basis**

SCM may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how SCM formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

On a quarterly basis, SCM generates a consolidated statement providing a detailed rate of return (performance) of the client's portfolio, as well as a consolidated summary of holdings and the quarter-end value of the securities. Clients may receive our reports more frequently should they request.

The client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by SCM.



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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

Please refer to the disclosures in Items 10 and 12 regarding recommendations to the private fund and benefits the firm receives from its custodian(s). SCM may receive economic benefits for referring clients to the private fund. You are under no obligation to utilize any service provider recommended to you by SCM or its affiliates.

SCM professionals may attend conferences hosted by fund companies or custodians ("Vendor") with which the firm does business. This may be considered a conflict of interest as the Vendor pays the SCM professionals' expenses for attending. SCM will provide a list of the current Vendors upon client request.

### **B. Advisory Firm Payments for Client Referrals**

SCM does not pay for client referrals.

## Item 15: Custody

SCM is considered to have custody of client assets for purposes of the Advisers Act for the following reasons:

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. Individual advisory clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in their accounts. SCM urges its clients to compare the account balance(s) shown on their account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.
- Our authority to direct client requests, utilizing standing instructions, for wire transfer of funds for first-party money movement and third-party money movement (checks and/or journals, ACH, Fed-wires). With respect to the assets at Schwab, the firm has elected to meet the SEC's seven conditions to avoid the surprise custody exam, as outlined below:
  1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
  2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
  3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
  4. The client has the ability to terminate or change the instruction to the client's qualified custodian.
  5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
  6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
  7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.
- With respect to the assets at Crews & Associates, the firm has elected to undergo a surprise custody exam.
- The firm or its affiliate is a managing member or general partner to a private fund vehicle. An independent public accountant annually audits a pooled investment vehicle(s) the firm manages and the audited financial statements are distributed to the

investors in the pooled vehicle within 120 days from the end of the private fund's fiscal year end or 180 days in the event of a feeder/master fund structure.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to SCM with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, SCM will exercise full discretion as to the nature and type of securities to be purchased and sold, the amount of securities for such transactions, the amount of commissions to be paid, and the executing broker to be used. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## **Item 17: Voting Client Securities**

Smith Capital will not vote proxies on behalf of its clients. The client may elect to receive the proxies and vote them at his or her discretion or to have the proxies sent to Smith Capital. Proxies sent to Smith Capital will not be voted.

SCM will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of SCM supervised and/or managed assets. In no event will SCM take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, SCM will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. SCM has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. SCM also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, SCM has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where SCM receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it may forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

SCM does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

SCM does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.