



## **ZPR Investment Management Inc.**

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This brochure provides information about the qualifications and business practices of ZPR Investment Management Inc. If you have any questions about the contents of this brochure, please contact us at (386) 775-1177. 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 ZPR Investment Management Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Our searchable IARD/CRD # is 105587.

ZPR Investment Management Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since our last annual updating amendment dated March 26, 2018, we have the following material changes to report:

- We have amended our contact e-mail address for general inquiries to [info@zprim.com](mailto:info@zprim.com). Additionally, our e-mail address for compliance inquiries is [compliance@zprim.com](mailto:compliance@zprim.com).
- We added a disclosure under the *Methods of Analysis, Investment Strategies and Risk of Loss* section to indicate the following: Since our investment recommendations are based on each client's specific financial situation, investment advice regarding the same security or investment strategy may differ from client to client.
- Lastly, we amended the disclosure under the *Disciplinary Information* section to reflect the conclusion of the reported regulatory matter as follows:  
On April 4, 2013, the United States Securities and Exchange Commission ("Commission") instituted public administrative and cease and desist proceedings alleging that ZPR and Max Zavanelli made false and misleading statements in ten (10) advertisements between October of 2008 and May 2011. On May 27, 2014 an initial decision was rendered by an Administrative Law Judge ("ALJ") that ZPR violated Section 206(1), 206(2), 206(4) and Rule 206(4)-5 of the Investment Advisers Act ("IAA") and that Max Zavanelli caused or aided and abetted the firm's violations. The decision ordered a censure, cease and desist order and civil penalties against ZPR and ordered a cease and desist order, civil penalties, and a permanent bar from association with any investment adviser and other regulated organizations against Max Zavanelli.

On October 30, 2015 the initial decision was affirmed, in majority part, by the Commission censuring ZPR, ordering ZPR and Max Zavanelli to cease and desist from further violations of the IAA, ordering a permanent bar against Max Zavanelli, and assessing a \$250,000 civil money penalty against ZPR and reducing the civil penalty against Max Zavanelli to \$570,000. As of October 30, 2015 Max Zavanelli ceased his affiliation with ZPR and is no longer associated with the firm.

On June 30, 2017 and following an appeal, the Eleventh Circuit Court of Appeals affirmed the Commission's finding that ZPR violated the IAA by making false or misleading claims in certain advertisements but vacated the Commission's finding that ZPR violated the IAA for a false claim contained in a December 2009 newsletter. In light of that ruling, the Court vacated the monetary penalty against ZPR and remanded the case to the Commission to determine whether the penalty should be reduced.

ZPR subsequently sought review of the Eleventh Circuit Court of Appeals decision by the United States Supreme Court and on January 16, 2018 this request was denied. After this ruling, ZPR and the Commission agreed to lower the civil penalty assessed against ZPR to \$218,750 and on March 30, 2018, the Commission entered an order for ZPR to pay that amount.

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## Item 4 Advisory Business

### Description of Services and Fees

ZPR Investment Management Inc. ("ZPR") is a registered investment adviser based in Orange City, Florida. We have been providing investment advisory services since incorporation in 1994. Mark David Zavanelli is the sole owner of ZPR.

ZPR provides discretionary portfolio management services for separate individual and institutional accounts. It is not a family of mutual funds or a personal money manager or a financial planner. Prior to opening an account with ZPR, you will decide which one or more strategies discussed in Item 8 below meets your investment objectives. If you retain our firm for portfolio management services, we help you open a standard brokerage account in your name. Since our investment recommendations are based on each client's specific financial situation, investment advice regarding the same security or investment strategy may differ from client to client.

ZPR utilizes the services of sub-advisors to determine the composition of model strategies and to execute transactions for client accounts. We currently only utilize UAB "Alfa tyrimai" (referred to as "UAB"), an entity located in Lithuania, for sub-advisory services. We have entered into an agreement with UAB whereby UAB has the discretion to buy and sell securities for your account in accordance with the strategy in which you are invested. UAB also provides ZPR with IT services, software development services and other services as agreed upon. UAB utilizes investment databases obtained from ZPR Investment Research, Inc., a company owned by Mark Zavanelli. We will monitor the performance of any sub-advisors on an ongoing basis and have the discretion to hire any sub-advisors without your consent.

Once your assets are invested in one or more strategies, we will monitor the portfolio(s) on an ongoing basis and your account will be rebalanced as required by changes in market conditions and the particular strategy.

We require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the sub-advisor to be used, specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm or trading authorization forms. In providing discretionary management services, we generally do not accept client restrictions on the specific securities or the types of securities that may be held in their account, however exceptions may be made on a case by case basis.

You may terminate the investment advisory agreement upon written notice to our firm and mutual release. You will incur a pro rata charge for services rendered prior to the termination of the agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees, based on the number of days remaining in the quarter, according to the fee schedule stated below under the Fees and Compensation Section.

### Advisory Services to Retirement Plans

As disclosed in this Form ADV Part 2A, we offer discretionary portfolio management services to employee benefit plans ("Plan"). The services are designed to assist plan sponsors in meeting their management and fiduciary obligations to Participants under the Employee Retirement Income Securities Act ("ERISA"). Pursuant to adopted regulations of the U.S. Department of Labor, we are required to provide the Plan's responsible plan fiduciary (the person who has the authority to engage

us as an investment adviser to the Plan) with a written statement of the services we provide to the Plan, the compensation we receive for providing those services, and our status (which is described below).

The services we provide to your Plan are described above, and in the service agreement that you have previously signed with our firm. Our compensation for these services is described below, at Item 5, and also in the service agreement. We do not reasonably expect to receive any other compensation, direct or indirect, for the services we provide to the Plan. If we receive any other compensation for such services, we will (i) offset the compensation against our stated fees, and (ii) we will promptly disclose the amount of such compensation, the services rendered for such compensation and the payer of such compensation to you.

### **Types of Investments**

ZPR (and its sub-advisors) invest in domestic and foreign equity securities, and warrants and rights when they are distributed by the equity securities that are exchange-listed or traded over-the-counter. On occasion some of client assets may be invested in foreign currencies.

### **Assets Under Management**

As of December 31, 2018, we provide continuous management services for \$97,077,022 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

The annual fee for portfolio management services is billed quarterly in advance based on the net market value (value of cash and securities minus any margin balance) of the assets under management on the last day of the preceding calendar quarter.

Fees will be assessed pro rata in the event the investment advisory agreement is executed at any time other than the first day of a calendar quarter. Our advisory fee is negotiable, depending on individual client circumstance, and based on a percentage of assets under management based on the following fee structure:

### **ASSET BASED FEE STRUCTURE \*\***

Quarterly Payments:

- 1/2 of 1% (or 50 basis points) per quarter when net assets are below \$1,000,000 billed at the beginning of each quarter. New accounts will be calculated on a pro-rated basis for the first quarter.
- 2/5 of 1% (or 40 basis points) per quarter when net assets exceed \$1,000,000 billed at the beginning of each quarter.
- 1/4 of 1% (or 25 basis points) per quarter when net assets exceed \$3,000,000 billed at the beginning of each quarter.

\*\* Existing clients of the firm may operate under a lower fee structure.

At our discretion, we may combine the account values of accounts we consider to be the same customer relationship to determine the applicable advisory fee. For example, we may combine account values for you and your relatives, your trust or business pension plan, and other types of related accounts. Combining account values may increase the asset total, which may result in you paying a reduced advisory fee based on the available breakpoints in our fee schedule stated above.

### **PERFORMANCE BASED FEE STRUCTURE:**

- Alternative fee for institutional client accounts with more than \$5 million under management immediately after entering into the advisory agreement.

- 0.60% of net Assets + 20% of excess returns over agreed upon benchmark, or
- 0.50% of net Assets + 12% of the return exceeding the agreed upon actuarial rate of the client's pension fund. Performance is calculated annually for the performance portion of the fee beginning with the first full quarter of assets under management.

We will send you an invoice for the payment of our advisory fee; or if you provide a standing authorization in the management contract that allows ZPR to be paid directly from your qualified custodian account, we will deduct our fee directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy.

### **Additional Fees and Expenses**

You may choose to enter a cash sweep arrangement with your custodian to buy and sell a money market mutual fund with any uninvested cash in your account. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses.

You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. In addition, some custodians may charge custodial fees. We do not share in any portion of the brokerage fees/transaction charges imposed by broker-dealers, custodian or sponsors. To fully understand the total costs you will incur, you should review all the fees charged by mutual funds, our firm, and others. For information on our brokerage practices, please refer to the Brokerage Practices section of this Brochure.

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

We charge performance based fees to institutional clients as described above in the Fees and Compensation section in this Brochure. Performance-based fees are fees based on a share of capital gains or capital appreciation of a client's account. We manage accounts that are charged performance-based fees while at the same time managing accounts (perhaps with similar objectives) that are not charged performance-based fees ("side-by-side management"). Performance-based fees and side-by-side management may create conflicts of interest.

ZPR does not believe that conflicts of interest are created because of its trading practices and strategy design. ZPR makes block trades which are allocated between client accounts in each strategy. Performance based fee accounts receive their share of the block trade per the trading policies. They do not receive any special treatment. Performance-based fees may create an incentive for firms to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In order to address this potential conflict of interest, our firm monitors model strategies to ensure holdings are suitable based on the strategy's investment objectives.

Performance based fees may also create an incentive for our firm to overvalue investments which lack a market quotation. In order to address such conflict, we have adopted policies and procedures that require our firm to "fairly value" any investments which do not have a readily ascertainable value.

Side-by-side management might provide an incentive for our firm to favor accounts for which we receive a performance-based fee. For example, we may have an incentive to allocate limited investment opportunities to clients who are charged performance-based fees over clients who are charged asset based fees only. To address this potential conflict of interest, we have instituted policies

and procedures that require our firm to allocate investment opportunities (if they are appropriate for our strategies) in an effort to avoid favoritism among our clients, regardless of whether the client is charged performance fees.

## **Item 7 Types of Clients**

We provide investment advice to individuals, pension and profit sharing plans, other pooled investment vehicles such as investment clubs and family limited partnerships, charities, corporations, and other business entities.

We have the following minimum account sizes for various strategies:

### **Fundamental Strategies:**

Small Cap Value - \$200,000

Global Equity - \$350,000

All-Asian - \$200,000

All Thai Equity - \$150,000

### **Quantitative Strategies:**

Grapes Quant Focused - \$150,000

Grapes Quant - \$200,000

Volume Winners - \$200,000

Volume Value - \$200,000

Volume Momentum - \$200,000

The minimum account sizes may be waived in our sole discretion. For example, we may waive the minimum if you appear to have significant potential for increasing your assets under our management.

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

ZPR (and its sub-advisors) manage accounts utilizing a variety of model strategies that are divided into two primary groups: Fundamental Strategies and Quantitative Strategies. In certain cases, some clients' holdings may deviate from other clients' who are invested in the same strategy. For example some clients may have a higher concentration of illiquid securities or may hold different securities than other clients.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial information, liquidity needs and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio. **It is important that you notify us immediately with respect to any material changes to your financial circumstances, including for example, a change in your current or expected income level, tax circumstances, or employment status.**

### **Fundamental Strategies:**

Small-Cap Value

Global Equity

All-Asian Equity

All Thai Equity



The term "we" and "our" as used in this Item 8 shall refer to our firm and the sub-advisors which we use. We believe that normal investor behavior, such as greed and fear caused by misinformation or lack of information, creates market inefficiencies where quality companies sometimes trade at unjustly low valuations. We view these situations as potential opportunities that can be exploited for profit, but only after careful, extensive analysis do we select stocks for inclusion in portfolios. Since our investment recommendations are based on each client's specific financial situation, investment advice regarding the same security or investment strategy may differ from client to client.

These strategies utilize the GRAPES (Growth Rate Arbitrage Price Equilibrium System) valuation model. This model identifies the efficient theoretical price of a stock and what value the company is worth as a private business.

Once we identify a group of stocks using GRAPES is identified and further narrow the selection through fundamental analysis, we run a risk/reward model to measure each stock's potential loss against its estimated possible gain. In order to be included in the portfolio, our estimated gain needs to be at least three times greater than our estimated potential loss.

Investments are weighted in the portfolio according to their probability of success, their risk, and their potential return.

We exercise a stringent sell discipline based upon price appreciation because as a stock's price rises, the risk/reward ratio changes. The risk for more appreciation may now be greater. If so, we sell and reinvest in new opportunities. We also sell if the company's fundamentals have for some reason deteriorated.

#### Small-Cap Value

Our Small-Cap Value Strategy is designed to find and invest in deep value companies with a market capitalization ranging from approximately \$50 million to \$10 billion. However, we have no minimum market cap rule for a stock.

The ZPR Small-Cap Value Strategy typically invests in overlooked or out-of-favor companies with the following characteristics:

- a unique product niche
- substantial positive retained earnings
- little to no debt
- strong cash flow
- little to no analyst coverage
- trading at an inefficient price as determined by our GRAPES Model

#### Global Equity

The ZPR Global Equity Strategy consists of both U.S. and non-U.S. small and mid-cap value stocks. The strategy identifies undervalued companies in select foreign markets by applying the same methodology that we use in managing our Small-Cap Value strategy.

#### All-Asian Equity

The ZPR All Asian Strategy consists of Asian small-cap value stocks. These stocks are generally the same stocks which form the Asian portion of the Global Equity Strategy. The strategy identifies undervalued companies in select foreign markets by applying the same methodology that we use in managing our Small-Cap Value strategy.



### All Thai Equity

The ZPR All Thai Equity Strategy consists of Thai small-cap value stocks. These stocks are generally the same stocks which form the Thailand portion of the Global Equity Strategy. The strategy identifies undervalued companies in the Thai stock market by applying the same methodology that we use in managing our Small-Cap Value strategy.

### **Quantitative Strategies:**

Grapes Quant Focused

Grapes Quant

Volume Winners

Volume Value

Volume Momentum

ZPR and affiliated companies have performed many studies on stock market anomalies - conditions involving corporate practices or investor behavior where unusual returns can be documented with statistical significance.

The insight gained from this research has allowed us to create a set of quantitative investment strategies for our managed client accounts which we believe have superior risk and return attributes. These strategies are managed according to a set of data-driven selection criteria without the company-specific analysis which we perform for our fundamental strategies.

Some of our quantitative strategies have a significant weighting in micro-cap stocks, which may carry additional risks specific to that security type. First, the liquidity in the stocks which make up the strategy is inherently lower than that of other small-cap stocks, so transactions costs are proportionally higher. Secondly, micro-cap companies are not as established as larger companies and may be more susceptible to economic disruptions.

Additionally, some of our quantitative strategies will be concentrated in market sectors.

### Grapes Quant Focused

The Grapes Quant Focused Strategy invests in U.S. small-cap stocks which meet certain quantitative selection criteria. Specifically, the stocks chosen are attractive according to our GRAPES valuation model and also are measured by a second "control" factor, which we believe improves the likelihood of a successful investment. Typically only a small number of small-cap companies pass both screens, resulting in a concentrated portfolio of approximately 15-20 stocks. Both factors are re-assessed on a quarterly basis, and turnover is likely each quarter.

### Grapes Quant

The Grapes Quant Strategy invests in U.S. small-cap and micro-cap stocks which meet certain quantitative selection criteria. Specifically, the stocks chosen are attractive according to our GRAPES valuation model and also are measured by a second "control" factor, which we believe improves the likelihood of a successful investment. Both factors are re-assessed on a quarterly basis, and turnover is likely each quarter.

### Volume Winners

The ZPR Volume Winners Strategy invests in micro-cap stocks which meet our multifactor volume winners selection criteria. This model is composed of four components: low volume, price momentum, a proprietary short interest measure, and our GRAPES valuation model. The strategy has turnover each quarter as lesser qualified stocks are replaced by newly qualified stocks.

### Volume Value

The Volume Value strategy invests in micro-cap stocks which meet our multifactor volume value selection criteria. This model is composed of two components: low volume and low (cheaper) valuation. The strategy has turnover each quarter as lesser qualified stocks are replaced by newly qualified stocks.

### Volume Momentum

The Volume Momentum strategy invests in micro-cap stocks which meet our multifactor volume momentum selection criteria. This model combines our Volume Winners strategy with a momentum strategy called SuperMo. We believe that these strategies are a natural combination as they focus on stock selection methods that are relatively less correlated with each other. SuperMo has a relatively higher turnover rate, so significant (>50%) turnover can be expected each quarter.

Although our three volume based strategies are designed with an objective of reduced volatility, there are nonetheless specific risks which pertain to the strategies. First, the liquidity in the stocks which make up the strategy is inherently lower than that of other small-cap stocks, so transactions costs are proportionally higher. Secondly, micro-cap companies are not as established as larger companies and may be more susceptible to economic disruptions.

### **Risks and Considerations:**

ZPR and our sub-advisors uses information from financial newspapers and magazines, corporate announcements of capital changes and other press releases, corporate rating services, timing services, annual reports, prospectuses, SEC filings, research prepared by others which would include institutional and academic databases, and proprietary databases. These proprietary databases and formulas, ("devices,") used by ZPR and our sub-advisors have limitations and difficulties with respect to their use. The use of these devices does not change the possibility of loss inherent in all investment decisions.

Past performance does not guarantee future results; there is always a possibility of loss. Investing in stocks involves systematic risk with panics and economic cycles, dips, crashes, and unwelcome surprises, currency risks, geopolitical risks, correlations with acts of god and nature that apply to all investments and can result in the loss of all or part of your principal.

When evaluating risk, financial loss may be viewed differently by each client and may depend on many different risks, each of which may affect the probability and magnitude of any potential losses. The following risks may not be all-inclusive, but should be considered carefully by a prospective client before retaining our services.

Risk Related to Company Size: Investment strategies that include investing in mid, small and micro capitalization companies generally involves greater risks than investment strategies investing in larger, more established companies, and possibly have a higher probability of experiencing a loss of principal in exchange for potentially higher growth. The market may value companies according to size or market capitalization rather than financial performance. As a result, if mid-cap, small-cap or micro-cap investing is out of favor, these holdings may decline in price, even though their fundamentals are sound. They may be more difficult to buy and sell, subject to greater business risks and more sensitive to market changes than larger capitalization securities. However, the pattern of their volatility may be different than those of larger stocks; and, therefore, may have diversification benefits, possibly reducing the overall portfolio volatility.

Concentration Risk and Non-Diversification Risk: A strategy is considered "non-diversified," which means that the strategy can invest a greater percentage of its assets in the securities of fewer issuers than a diversified portfolio. The strategy may also have a greater percentage of its assets invested in

particular industries than a diversified portfolio, exposing the portfolio to the risk of unanticipated industry conditions, as well as risks particular to a single company or the securities of a single company. Additionally, a non-diversified portfolio generally is more volatile, and the portfolio may have a greater risk of loss if the portfolio redeems shares during a period of high volatility. Lack of broad diversification also may cause the portfolio to be more susceptible to economic, political, regulatory, liquidity or other events than a diversified portfolio.

Liquidity Risk: The risk of being unable to sell your investment at a fair price at a given time due to high volatility or lack of active liquid markets. You may receive a lower price or it may not be possible to sell the investment at all.

Inflation and Interest Rate Risk: Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of a client's future interest payments and principal. Inflation also generally leads to higher interest rates which may cause the value of many types of fixed income investments to decline.

Foreign Securities Risk: Investments in foreign securities involve certain risks that differ from the risks of investing in domestic securities. Adverse political, economic, social or other conditions in a foreign country may make the securities of that country difficult or impossible to sell. It is more difficult to obtain reliable information about some foreign securities. The costs of investing in some foreign markets may be higher than investing in domestic markets.

Other risks an investor should be aware of when selecting an investment strategy that invests in foreign or international securities are:

1. **Currency Risk** - the risk that the U.S. Dollar's exchange rate versus other currencies may change, thus increasing or decreasing the value of the stock once exchanged back into U.S. Dollars.
2. **Political or Sovereign Risk** - Countries outside the U.S. have different legal, economic and political structures that can affect the value of investments in those countries.
3. **Emerging Markets:** Investment strategies that invest in emerging international markets may experience additional risks beyond those listed above. Emerging markets may have less developed legal, economic and political structures that are in the process of emerging, and, therefore, may experience additional volatility beyond that of more economically developed countries. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been, and may continue to be, affected adversely by economic conditions in the countries in which they trade. Because of the special risks associated with investing in Emerging Markets, investments in such securities should be considered speculative. Investors in such strategies are advised to consider carefully the special risks of investing in emerging market securities.

The risk also exists that an emergency situation may arise in one or more developing markets, as a result of which trading of securities may cease or may be substantially curtailed and prices for an investment strategy's securities in such markets may not be readily available. Investors should note that changes in the political climate in Emerging Markets might result in significant shifts in the attitude to the taxation of foreign investors. Such changes may result in changes to legislation, the

interpretation of legislation, or the granting to foreign investors the benefit of tax exemptions or international tax treaties. The effect of such changes can be retrospective and can (if they occur) have an adverse impact on the investment return of the investment strategy.

Due to the high turnover in all quantitative portfolios (up to 100% each quarter), the high turnover will result in increased commissions and other trading costs which may cause these strategies to underperform their relevant benchmarks.

All strategies may result in long term and short term gains and losses. ZPR and our sub-advisors do not use "Trading" (securities sold within 30 days) as a strategy, but such sales may occur on bad news. Some account contracts may allow Short sales and Margin transactions that may be appropriate for certain ZPR strategies.

As is the case with any investment strategy, it is recommended that you be prepared to commit to your chosen strategy for the long term. ZPR will not approve a new managed account if it is known that an investor intends to leave after a short period of time or if we determine that an account with us is otherwise inappropriate.

### **Tax Considerations**

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you consult with a tax professional regarding the investing of your assets.

## **Item 9 Disciplinary Information**

On April 4, 2013, the United States Securities and Exchange Commission ("Commission") instituted public administrative and cease and desist proceedings alleging that ZPR and Max Zavanelli made false and misleading statements in ten (10) advertisements between October of 2008 and May 2011. On May 27, 2014 an initial decision was rendered by an Administrative Law Judge ("ALJ") that ZPR violated Section 206(1), 206(2), 206(4) and Rule 206(4)-5 of the Investment Advisers Act ("IAA") and that Max Zavanelli caused or aided and abetted the firm's violations. The decision ordered a censure, cease and desist order and civil penalties against ZPR and ordered a cease and desist order, civil penalties, and a permanent bar from association with any investment adviser and other regulated organizations against Max Zavanelli.

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

We are under common control and ownership with Great Northern Asset Management, Inc. a registered investment adviser. We may recommend that you use the services of Great Northern Asset Management, Inc if appropriate and suitable for your needs. Clients of our firm may also be clients of Great Northern Asset Management, Inc. and are hereby advised that the services provided and fees charged by our firm are separate and apart from those of Great Northern Asset Management.

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

### **Description of Our Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Our Code of Ethics is available to you upon request. You may obtain a copy of our Code of Ethics by contacting us at 386-775-1177 or via e-mail at [compliance@zprim.com](mailto:compliance@zprim.com).

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

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this Brochure.

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Please refer to the "Brokerage Practices" section in this Brochure for information on our block trading practices.

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, we have instituted policies and procedures to ensure that all our clients are treated equitably regarding the purchase or sale of securities.

## **Item 12 Brokerage Practices**

ZPR uses the brokerage services of Instinet Inc., DBS Vickers, the custodial services of U.S. Bank Institutional Trust and Custody ("U.S. Bank") and Interactive Brokers.

We believe that Instinet Inc., DBS Vickers, U.S. Bank and Interactive Brokers provide quality execution and custodial services for you at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage/custodial services provided including the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of additional brokerage/custodial products and services that Instinet Inc., DBS Vickers U.S. Bank and Interactive Brokers provide, you may pay higher commissions, custodial and/or trading costs than those that may be available elsewhere.

### **Soft Dollar Benefits**

We do not receive any soft dollar benefits.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **Directed Brokerage**

In limited cases and if we agree, you may direct us in writing to use a particular broker-dealer to execute some or all of the transactions for your account. If you do so, you are responsible for negotiating the terms and arrangements for the account with that broker-dealer. We may not be able to negotiate commissions, obtain volume discounts, or best execution. In addition, under these circumstances a difference in commission charges may exist between the commissions charged to clients who direct us to use a particular broker or dealer and other clients who do not direct us to use a particular broker or dealer.

### **Block Trades**

We combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We may also block trade accounts for clients of our firm with accounts for clients of our affiliate, Great Northern Asset Management, Inc. We use several different block trading methods, however we will always attempt to distribute the shares to participating accounts in a fair and equitable manner. We typically allocate shares on a pro-rata basis proportionate to the size of the account. However, in situations such as with thinly traded or illiquid securities, where trades will require multiple days to execute or in the event our typical method would result in a minimal allocation of shares, we may choose to execute orders based on a rotational methodology in order to avoid excess transactions and/or allocate shares fairly. Our rotational methodology includes allocating shares on either a random basis or allocating shares in terms of specific accounts current versus target weightings with accounts who are further from their target weighting receiving priority. Subject to our discretion, regarding particular circumstances and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment. We do not allocate shares based on account performance or the amount or structure of management fees.

## **Item 13 Review of Accounts**

Mark Zavanelli, Owner, monitors model strategy holdings on an ongoing basis. Mr. Zavanelli and/or our sub-advisors will make changes to the model portfolios as required by changes in market conditions or in accordance with the model's strategy. Mr. Zavanelli reviews individual client accounts on at least a monthly basis. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- contributions and withdrawals,
- year-end tax planning,



- market moving events, and/or
- security specific events.

ZPR provides the following monthly reports to clients:

- Security Holdings Report
- Realized Gains/Losses Report
- Performance Summary Report
- Transactions Report

In addition, a year to date Gain/Loss Report is prepared for taxable clients in the beginning of the 4th quarter.

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

ZPR has engaged ZPR Client Management, Inc., an entity independently owned and operated by David Sappir, to enhance client relationships and to introduce qualified prospective clients to ZPR. Consistent with Rule 206(4)-3 under the Investment Advisers Act of 1940, ZPR shall pay a portion of its advisory fees collected from clients introduced by ZPR Client Management, Inc., as well as reimburse it for certain expenses. ZPR Client Management, Inc. has a financial interest in the selection of ZPR to the extent it receives any portion of the advisory fees collected by ZPR. Since the fees paid to ZPR Client Management, Inc. are a portion of the advisory fees collected by ZPR, it does not cause the client to incur any additional fees.

We may also directly compensate other non-employee (outside) consultants, individuals, and/or entities (Solicitors) for client referrals. In order to receive a cash referral fee from our firm, Solicitors must comply with the requirements of the jurisdictions in which they operate. If you were referred to our firm by a Solicitor, you should have received a copy of this brochure along with the Solicitor's disclosure statement at the time of the referral. If you become a client, the Solicitor that referred you to our firm will receive a percentage of the advisory fee you pay our firm for as long as you are a client with our firm, or until such time as our agreement with the Solicitor expires. You will not pay additional fees because of this referral arrangement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, a Solicitor has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services. Comparable services and/or lower fees may be available through other firms.

We do not receive any compensation from any third party in connection with providing investment advice to you.

## **Item 15 Custody**

We may directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your account(s) causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.



You should compare our statements with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact us at the telephone number on the cover page of this Brochure.

## **Item 16 Investment Discretion**

ZPR has full discretion to hire and fire sub-advisors and to determine, without obtaining specific client consent, the securities to be bought and sold and the amount of the securities to be bought or sold per its investment advisory agreement. There are no limits on securities to be bought or sold except that most account contracts do not permit margin trading or short sales. The investment advisory agreement also prohibits real estate, commodities, futures, and tax shelter products.

Accounts are invested according to the model strategy chosen by the Client in the investment advisory agreement. ZPR is not a financial planner and does not advise clients on how to diversify or otherwise balance all the clients' assets.

## **Item 17 Voting Client Securities**

ZPR Management, Inc. has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 204(4)-6 under the Investment Advisers Act of 1940. Our authority to vote the proxies of our clients is established by our advisory contracts or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations.

### **Proxy Policy**

The theme of ZPR's proxy policy is that votes will be cast with the sole aim of enhancing the value of beneficiary assets, specifically:

1. Voting with management on routine matters (e.g., election of Directors, ratification or selection of Accountants).
2. Analyzing other management proposals on a case by case basis (e.g., executive compensation, stock option plans).
3. Opposing anti-takeover proposals, (e.g., supermajority amendments, unequal voting rights plans), except where special circumstances dictate otherwise.
4. All voting records will be retained.

Often we must vote on anti-takeover provisions that can have implications on future stock returns. Provisions such as those which restrict the right for shareholders to call a special meeting, reincorporation, dual voting classes of shares and supermajority voting requirements can be harmful to shareholders according to many studies. All other issues brought forth will be reviewed on a case by case basis with the sole aim of enhancing the value of beneficiary assets. We do not accept direction from you on voting a particular proxy.

Conflicts of interest between our firm, or a principal of our firm, regarding certain proxy issues could arise. If we determine that a material conflict of interest exists, we will take the necessary steps to resolve the conflict before voting the proxies. For example, we may abstain from voting, follow the recommendations of independent counsel or, we will take other necessary steps designed to ensure that a decision to vote is not the product of the conflict.

We keep certain records required by applicable law in connection with our proxy voting activities. You may obtain information on how we voted proxies and/or obtain a full copy of our proxy voting policies and procedures by making a written or oral request to our firm.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

## **Item 18 Financial Information**

We are not required to provide financial information to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.

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

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## **Item 20 Additional Information**

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any non-public personal information about you to any non-affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to non-public personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your non-public personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

If you decide to close your account(s) we will adhere to our privacy policies, which may be amended from time to time.

If we make any substantive changes in our privacy policy that would further permit or require disclosures of your private information, we will provide written notice to you. Where the change is based on permitted disclosures, you will be given an opportunity to direct us as to whether such disclosure is acceptable. Where the change is based on required disclosures, you will only receive written notice of the change. You may not opt out of the required disclosures.

If you have questions about our privacy policies contact our main office at the telephone number on the cover page of this brochure and ask to speak to the Chief Compliance Officer.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

### **IRA Rollover Considerations**

As part of our investment advisory services to you, we may recommend that you withdraw the assets from your employer's retirement plan and roll the assets over to an individual retirement account ("IRA") that we will manage on your behalf. If you elect to roll the assets to an IRA that is subject to our management, we will charge you an asset based fee as set forth in the agreement you executed with our firm. This practice presents a conflict of interest because persons providing investment advice on our behalf have an incentive to recommend a rollover to you for the purpose of generating fee based compensation rather than solely based on your needs. You are under no obligation, contractually or otherwise, to complete the rollover. Moreover, if you do complete the rollover, you are under no obligation to have the assets in an IRA managed by our firm.

Many employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete the rollover to an IRA, and to the extent the following options are available, you should consider the costs and benefits of:

1. Leaving the funds in your employer's (former employer's) plan.
2. Moving the funds to a new employer's retirement plan.
3. Cashing out and taking a taxable distribution from the plan.
4. Rolling the funds into an IRA rollover account.

Each of these options has advantages and disadvantages and before making a change we encourage you to speak with your CPA and/or tax attorney.

If you are considering rolling over your retirement funds to an IRA for us to manage here are a few points to consider before you do so:

1. Determine whether the investment options in your employer's retirement plan address your needs or whether you might want to consider other types of investments.
  - a. Employer retirement plans generally have a more limited investment menu than IRAs.
  - b. Employer retirement plans may have unique investment options not available to the public such as employer securities, or previously closed funds.

2. Your current plan may have lower fees than our fees.
  - a. If you are interested in investing only in mutual funds, you should understand the cost structure of the share classes available in your employer's retirement plan and how the costs of those share classes compare with those available in an IRA.
  - b. You should understand the various products and services you might take advantage of at an IRA provider and the potential costs of those products and services.
3. Our strategy may have higher risk than the option(s) provided to you in your plan.
4. Your current plan may also offer financial advice.
5. If you keep your assets titled in a 401k or retirement account, you could potentially delay your required minimum distribution beyond age 70.5.
6. Your 401k may offer more liability protection than a rollover IRA; each state may vary.
  - a. Generally, federal law protects assets in qualified plans from creditors. Since 2005, IRA assets have been generally protected from creditors in bankruptcies. However, there can be some exceptions to the general rules so you should consult with an attorney if you are concerned about protecting your retirement plan assets from creditors.
7. You may be able to take out a loan on your 401k, but not from an IRA.
8. IRA assets can be accessed any time; however, distributions are subject to ordinary income tax and may also be subject to a 10% early distribution penalty unless they qualify for an exception such as disability, higher education expenses or the purchase of a home.
9. If you own company stock in your plan, you may be able to liquidate those shares at a lower capital gains tax rate.
10. Your plan may allow you to hire us as the manager and keep the assets titled in the plan name.

It is important that you understand the differences between these types of accounts and to decide whether a rollover is best for you. Prior to proceeding, if you have questions contact your investment adviser representative, or call our main number as listed on the cover page of this brochure.