



# Investment Research Corporation

## Brochure (Form ADV Part II)

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This brochure provides information about the qualifications and business practices of Investment Research Corporation. If you have any questions about the contents of this brochure, please contact us at 303-626-0634 or at [info@invresearch.com](mailto:info@invresearch.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 does not imply a certain level of skill or training.

Additional information about Investment Research Company also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

March 2020

### **Material Changes Since the last Annual Update**

Methods of Analysis, Investment Strategies and Risk of Loss has been updated to include more details on the risks that can be involved when investing in various types of securities, including, but not limited to, risks associated when investing in the legal cannabis industry.

Disciplinary Information was also updated to reflect IRC's voluntary participation in the SEC's Share Class Selection Disclosure Initiative.



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## Advisory Business

Investment Research Corporation, dba. World Capital Brokerage Advisory Services ("Firm"), was founded on August 29, 1958. Timothy Taggart, a longtime employee of the Firm, is the president and owner of Investment Research Corporation.

The Firm provides investment supervisory services, manages investment advisory accounts not involving investment supervisory services, and financial planning.

The Firm offers advice on:

- Equity Securities
  - Exchange-Listed Securities
  - Foreign Issuers
- Corporate Debt Securities
- Certificates of Deposit
- Municipal Securities
- Investment Company Securities
  - Variable Life Insurance
  - Variable Annuities
  - Mutual Fund Shares
- United States Government Securities

Financial Planning helps clients deal with various personal financial issues through proper planning which may include items such as cash flow management, education, retirement, investment, risk management, insurance, tax, and estate planning.

Using the information provided to us (our Advisor Representatives) by the clients, our Advisor Representatives are able to try and assist the client in customizing their portfolio with the goal of improving the client's financial status. Of course, clients are free to restrict what their monies are invested in and should understand that any investment restrictions placed may adversely affect their account balance.

The Firm participates in a Wrap Fee Program (the "Program"). There are no differences between how the Firm manages a Wrap Fee Account or another account. The Firm does receive a portion of the wrap fee for its services.

For the period ended 12/31/2019 the Firm managed \$20,238,797 on a discretionary basis and \$21,878,833 on a non-discretionary basis.

## Fees and Compensation

Clients in the Program pay a single annualized fee, based upon a percentage of the market value of all Program assets, or a flat fee, whichever the Client chooses, for participation in the Program. The Program may cost clients more or less than purchasing such services separately. The Client can choose either a \$3,000 flat fee, or a fee based on a percentage based upon the value of the Client's account for 0.5%, 1.0%, 1.5% or another percent value mutually agreed upon between the Client and Investment Advisor Representative. No fees are charged for issuing reports. The Maximum fee is 2.0% of assets under management not including program, product, custodial, mutual fund fees (including marketing fees allowed under SEC Rule 12b-1), servicing or any other fee imposed on the account by the third party manager or one of its affiliates. Compensation is payable quarterly, deducted from the account via third party vendors, and is



billed in advance based upon the value of CLIENT'S account at the preceding quarter-end. If the advisory contract is terminated prior to the quarter's completion, the client should ask the Investment Advisor Representative to request, in writing, for a partial refund of quarterly fees. The formula to be used when figuring the refund will be business days remaining in the quarter multiplied by that quarter's average daily fee.

No supervised person accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. Clients may also incur brokerage fees and transaction costs as described in Brokerage Practices on page 9. Clients may terminate contracts within 5 business days of the initially entering into them without penalty.

Many mutual funds charge investors in those funds management fees and expenses for management related services, which are in addition to the fees charged by the Firm. Those fees and expenses are typically referred to as an "expense ratio," and are disclosed in the fund prospectus. The expense ratio is a cost to the investor in the mutual fund. Many, but not all, mutual funds include in the expense ratio a fee for distribution and marketing, which is often referred to as a "Rule 12b-1 fee," which is typically (though not always) 25bp. The Firm has received in the past, and expects to receive in the future, some or all of the Rule 12b-1 fees paid by the mutual fund. The receipt of Rule 12b-1 fees creates a conflict of interest because the Firm has an incentive to recommend or purchase for clients mutual funds which pay Rule 12b-1 fees rather than a client's needs. In addition mutual funds typically offer a number of share classes in the same fund which are subject to different eligibility, purchase, or transfer limitations, including for many, although not all mutual funds, a share class often referred to as "institutional shares, designed for purchasers who meet specified eligibility criteria, such as a minimum dollar threshold, or enrollment in an eligible fee-based investment advisory program. Institutional shares usually have a lower expense ratio, and frequently to not charge Rule 12b-1 fees. The existence of share classes, particularly institutional shares, creates a conflict of interest because the Firm has an incentive to recommend or purchase non-institutional shares, even where lower cost institutional shares are available, because non-institutional shares will be more financially beneficial to the Firm, but more costly to the client. The Firm has received in the past, and expects to receive in the future, fees paid by non-institutional shares, even when institutional shares were available which did not pay fees, or which paid lower fees than non-institutional shares. The Firm addresses the conflicts of interest described in this paragraph through disclosure to clients and supervision of Investment Advisor Representatives to reduce the possibility that a client's needs are not being met. More information about share class eligibility can be found in the mutual fund prospectus.

Clients should understand that investments recommended by the Firm or the Investment Advisor Representatives are available for purchase through other brokers or agents that are not affiliated with the firm.

Financial Planning – Investment Advisor Representatives may be compensated on an hourly basis, but is also permitted to offer a flat-fee arrangement. Client is billed directly and is often billed to bring his account current and to cover further estimated billing in accordance with the engagement agreement. An initial deposit may be required to begin the engagement and the Client is billed as hours accrue. Rates range from \$150 to \$250 per hour depending upon the set of tasks or circumstances about which Client wishes Investment Advisor Representative to perform or give advice. Fees are negotiable for special situations. Client is responsible for third party service or product costs, fees, or expenses incurred by Client or Investment Advisor Representative on behalf of Client. Clients may also incur brokerage fees and transaction costs as described in Brokerage Practices on page 16. If Client terminates the engagement and a residual of any advanced payment remains after an accounting for fees, expenses, hours





expended on Client's behalf, this residual is returned within seven business days of the final accounting. After 48-hours, no part of the initial deposit is refundable if Client terminates, but a pro rata portion is returned if Adviser terminates the engagement.

### **Performance Based Fees**

Investment Advisor Representatives do not collect performance-based fees.

### **Types of Clients**

The Firm generally provides investment advice to Individuals as well as investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, and corporations or business entities.

The Firm does not impose a minimum dollar value of assets or other conditions for starting or maintaining an account.

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

The Firm uses a fundamental style of security analysis. Fundamental Analysis involves looking for, as an example, potential of growth, future factors such as interest rate cuts or mergers, management of a company or economic strength. The main sources of information are derived from financial newspapers and magazines, inspections of corporate activities, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission and company press releases.

Investment strategies used to implement any investment advice given to clients include:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within 30 days)

Investing in any mutual fund involves risk, including the risk that you may receive little or no return on your investment, and the risk that you may lose part or all of the money you invest. In addition, the legal cannabis business is a quickly growing and emerging business. As a result there are additional risks that you should consider.

~ General Risk - All investments are subject to inherent risk. Markets can trade in random or cyclical price patterns and prices can fall over time.

~ Stock Market Risk - the value of an investment may fluctuate.

~ Political, Economic and Regulatory Risk - Changes in economic and tax policies, high inflation rates, government instability, and other political or economic actions or factors that may have an adverse effect. Governmental and regulatory actions, including law changes, may have unexpected or adverse consequences on particular markets, strategies, or investments. Legislation or regulation may also change the way in which securities are regulated. IRC cannot predict the effects of any new governmental regulation or law that may be implemented on the ability to invest in certain assets, or the possible effect on our ability to access financial markets, and there can be no assurance that any new governmental regulation will not adversely affect the your ability to achieve your investment objectives.



## ~ Cannabis and Hemp Industry Risks –

### Cannabis-Related Risks

Cannabis remains illegal under United States federal law and a change in federal enforcement practices could significantly and negatively affect the value of securities. Despite the development of a cannabis industry legal under state laws, state laws legalizing medicinal and adult cannabis use are in conflict with the federal Controlled Substances Act (the “CSA”).

Cannabis is categorized as a Schedule-I controlled substance under the CSA, as enforced by the Drug Enforcement Agency (the “DEA”) and the United States Department of Justice (the “DOJ”). Under the CSA, it is illegal to grow, process, sell, possess and consume cannabis. A Schedule-I controlled substance is defined under the CSA as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The CSA further defines Schedule I controlled substances as “the most dangerous drugs of all the drug schedules with potentially severe psychological or physical dependence.” In addition, the revenue generated from these cannabis businesses would represent proceeds of a crime under federal law and, thus, a violation of United States anti-money laundering laws. However, over thirty states and the District of Columbia currently allow their citizens to use medical cannabis, and eleven states and the District of Columbia have legalized cannabis for adult use. As a result, this has created an unpredictable business-environment for dispensaries and cultivators that legally operate under state-laws but in violation of federal law. On August 29, 2013, United States Deputy Attorney General James Cole issued the Cole Memorandum to United States Attorneys guiding them to prioritize enforcement of federal law away from the medical cannabis industry operating as permitted under state law, so long as:

- cannabis is not being distributed to minors and dispensaries are not located around schools and public buildings;
- the proceeds from sales are not going to gangs, cartels or criminal enterprises;
- cannabis grown in states where it is legal is not being diverted to other states;
- cannabis-related businesses are not being used as a cover for sales of other illegal drugs or illegal activity;
- there is not any violence or use of fire-arms in the cultivation and sale of marijuana;
- there is strict enforcement of drugged-driving laws and adequate prevention of adverse health consequences; and
- cannabis is not grown, used, or possessed on federal properties.

The Cole Memorandum was meant only as a guide in the medical marijuana space, not a rule of law, for United States Attorneys and did not alter in any way the DOJ’s federal authority to enforce federal law, including federal laws relating to medical or adult use cannabis, regardless of state law. Moreover, the Cole Memorandum also provided that it could not be used as a defense to any cannabis-related criminal prosecution.

On January 4, 2018, United States Attorney General Sessions issued a Memorandum to United States Attorneys rescinding the Cole Memorandum, stating that federal United States prosecutors should follow well-established principles in effect prior to the issuance of the Cole Memorandum that govern all federal prosecutions in deciding which activities to prosecute under existing federal laws. Federal legislation has been proposed over the years to reschedule or de-schedule cannabis from the CSA, as well as to transform the Cole Memorandum into a rule of law. In addition, current United States Attorney General William Barr stated in a written response as part of his confirmation hearing that he does not intend to pursue the prosecution of those involved in the medical cannabis industry that are otherwise compliant with the Cole Memorandum. Nevertheless, there remains the risk of federal criminal prosecution of those in the medical or adult use cannabis business, which could have a negative impact on securities.

Notwithstanding cannabis being illegal under United States federal law, the Rohrabacher-Farr amendment (now called the Rohrabacher-Blumenauer amendment) was appended to the



federal budget bill starting in December 2014, and has been re-adopted every year ever since. This amendment limits the ability of the DOJ to interfere in states with businesses and individuals who participate in and comply with state-regulated medical cannabis programs. The amendment has been interpreted to prohibit the DOJ from using federal funds for the prosecution of businesses and individuals that are operating in accordance with state medical cannabis laws. In particular, in 2016, a federal appellate court upheld this funding restriction as a basis to overturn convictions of people involved in the state-regulated medical cannabis space. The Rohrabacher-Blumenauer amendment must be renewed annually unless federal legislation is adopted to formalize this restriction. Federal legislation has been proposed over the years to formalize the protection covered by this rider to the federal spending bill. Until that protection becomes law or if the amendment is not renewed in the future, the federal government's enforcement of current federal laws could cause significant financial risk to securities. The Rohrabacher-Blumenauer amendment does not provide protection to those engaged in the adult use cannabis business. Laws and regulations affecting the cannabis/marijuana industries are constantly changing, which could detrimentally affect securities, and we cannot predict the impact that future laws and regulations may have on securities. Local, state and federal cannabis laws and regulations are constantly changing and they are subject to evolving interpretations, which could require companies to incur substantial costs associated with compliance or to alter one or more of their service/product offerings. In addition, violations of these laws, or allegations of such violations, could disrupt their business and result in a material adverse effect on the value of securities. We cannot predict the nature of any future United States local, state and federal laws, regulations, interpretations or applications, nor can we determine what impact additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on the business of the Fund. Any change in law or interpretation could have a material adverse impact on the value of securities.

If the licenses/permits of United States medical and adult use cannabis businesses are terminated or not renewed, there could be a risk to the value of securities. The ability to operate a medical and/or adult use cannabis business in the United States is dependent on the ability of those companies to maintain in good standing their state/local permits/licenses necessary for the operation of a medical or adult use cannabis business. Further, in order for these companies to retain their permits/licenses, they are required to comply with ongoing compliance and reporting requirements and ongoing regulation and oversight by certain state/local governmental authorities. Any failure to comply with any such regulatory requirements or any failure to maintain any such permits/licenses could have a material adverse impact on the value of that security. Participants in the United States cannabis industry have difficulty accessing the service of banks. Despite guidance issued by the Financial Crimes Enforcement Network of the United States Department of the Treasury in February 2014, mitigating the risk to banks/credit unions that do business with medical cannabis companies permitted under state law, as well as guidance from the DOJ noted above, banks/credit unions remain wary to accept funds from businesses in the cannabis industry, including those involved in hemp discussed more fully below. Because medical and adult use cannabis remain illegal under federal law, there remains a compelling argument that banks/credit unions may be in violation of the CSA and federal anti-money laundering laws when accepting for deposit, funds derived from the sale or distribution of medical and/or adult use cannabis. Consequently, businesses involved in the medical and adult use cannabis industries (and to some degree those in the hemp and hemp-derived product industry) continue to have trouble establishing and maintaining banking relationships. An inability to open and maintain bank accounts may make it difficult to do business with cannabis and hemp companies in the United States, which could adversely impact the value of the Security.

Companies involved in the cannabis industry also face intense competition, may have substantial burdens on company resources due to litigation, as well as complaints or enforcement actions, all of which could adversely impact the value of the Fund.





## Hemp-Related Risks

What is hemp under United States federal law? Botanically, hemp and marijuana come from the same species of plant, *Cannabis sativa*, but from different varieties or cultivars that have been bred for different uses. In fact, hemp and marijuana are genetically distinct forms of cannabis that differ by their use, chemical makeup, and differing cultivation practices. While marijuana generally refers to the psychotropic drug used in the medical and adult use cannabis businesses, growers cultivate hemp for use in production of many products, including foods and beverages, personal care products, nutritional supplements, fabrics, textiles, paper, construction materials, and other manufactured goods.

There are about 500 natural components found within the *Cannabis sativa* plant, of which over 100 have been classified as “cannabinoids” (another word for chemicals unique to the plant). The two most well-known cannabinoids are delta-9-tetrahydrocannabinol (“THC”) and Cannabidiol (“CBD”). THC is the main psychoactive cannabinoid that gives users the “high” feeling, while CBD is the main non-psychoactive cannabinoid in cannabis and constitutes up to 40% of the plant’s extracts. CBD can derive from both marijuana and hemp, but this section will only focus on possible investments in businesses engaged in the growth, manufacture and sale of hemp and hemp-derived CBD.

Although the 2018 Farm Bill federally legalized hemp and hemp derived products, issues remain with the growth and sale of hemp and hemp-based products. On December 20, 2018, the President signed into law the Agriculture Improvement Act of 2018 (the “2018 Farm Bill”), which became effective on January 1, 2019. Among other things, the 2018 Farm Bill amended certain federal laws relating to the production and marketing of hemp, as well as derivatives of the plant, including CBD. While most of these amendments involve the growth/production of hemp, certain amendments involve the sale of hemp and hemp-derived products. Importantly, the 2018 Farm Bill defines “hemp” as “the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, whether growing or not, with a [THC] concentration of not more than 0.3 percent on a dry weight basis”.

From its inception, the CSA classified both “marijuana” and THC as Schedule I controlled substances. Before Congress passed the 2018 Farm Bill, the CSA defined “marijuana” in relevant part as “all parts of the plant *Cannabis sativa* L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin.” Under this definition, hemp was a controlled substance and, thus, could not be manufactured, possessed, or distributed, and the handling of any funds generated from such sales would violate federal anti-money laundering laws.

The 2018 Farm Bill expressly removed hemp from the CSA definition of “marijuana.” It also carved-out an exception for the low levels of THC found in hemp. This means that hemp is no longer an illegal substance under United States federal law. Further, the production, sale, and distribution of hemp is no longer subject to the enforcement or regulatory oversight of the DEA. Instead, as discussed below, the 2018 Farm Bill delegates those responsibilities to the Secretary of Agriculture (the “Secretary”).

### The Agricultural Marketing Act of 1946 (the “AMA”)

The bulk of the hemp-related changes promulgated by the 2018 Farm Bill are in the amendments to the AMA. Among other things, Congress enacted the AMA to provide a “sound, efficient, and privately operated system for distributing and marketing agricultural products.” Under the 2018 Farm Bill, there are six major hemp-related amendments to the AMA: (1) the definition of “hemp”; (2) the creation, approval, and compliance with state hemp “plans”; (3) the creation, approval, and compliance with a federal hemp “plan”; (4) the regulatory authority of the Secretary of Agriculture; (5) the transportation of hemp products in interstate commerce; and (6) the effect of the 2018 Farm Bill on other laws, particularly the Federal Food, Drug, and Cosmetic Act (the “FD&C Act”). Each of the six major hemp-related amendments could impact the business of the Fund.



First, the 2018 Farm Bill established a definition of “hemp”:

The plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, whether growing or not, with a [THC] concentration of not more than 0.3 percent on a dry weight basis.”

Any hemp companies that are selling raw or refined hemp that does not fit the above definition of hemp will be violating the CSA and federal anti-money laundering laws, which could put an investment in one of those companies at risk and thus impact the value of the security.

Second, the 2018 Farm Bill offers primary regulatory authority over the growth/production of hemp to each individual state. Under the 2018 Farm Bill, this authority must be expressed in a “plan” under which the particular state monitors and regulates the growth/production of hemp. A state plan must include (1) a practice to maintain relevant land information where hemp is produced; (2) a procedure for testing THC levels of hemp; (3) a procedure for disposing non-compliant hemp plants; (4) enforcement procedures for violations; (5) a procedure for annual, random sample testing to ensure compliance; (6) a procedure for sharing information with the federal government; and (7) a certification that the state has the resources to carry out its plan. The 2018 Farm Bill also allows states to include any other practice or procedure so long as the practice or procedure is “consistent with this subtitle.” Indeed, the 2018 Farm Bill expressly allows states to enact more stringent hemp laws without facing federal preemption. The Secretary must either approve or reject a state plan within 60 days after submission. The Secretary announced that the Department of Agriculture intended to issue its regulations in August 2019, but it has yet to do so. State plans will not be approved until the Department of Agriculture promulgates its regulations. Thus, hemp companies may be in a state of flux regarding their compliance with federal and state law, both of which are subject to change upon the full implementation of the 2018 Farm Bill.

Third, the 2018 Farm Bill provides that, in states without approved plans, hemp producers must comply with a federal plan established by the Secretary. Until one year after the Secretary establishes a federal plan, the 2014 Farm Bill remains in effect. That said, nothing in the 2018 Farm Bill suggests that the 2014 Farm Bill prohibits selling hemp-CBD, but this lack of clarity presents a risk to securities.

Fourth, the 2018 Farm Bill, as noted, gives the Secretary sole authority to promulgate federal regulations that relate to the growth/production of hemp. The 2018 Farm Bill has also shifted enforcement and regulatory authority away from the DEA and towards the Food and Drug Administration (the “FDA”) when it comes to hemp-derived finished products, which may present issues for these companies as set forth more fully below depending upon what regulations the FDA may promulgate and ultimately enforce.

Fifth, the 2018 Farm Bill expressly provides that it does not prohibit interstate commerce of hemp. Even further, the 2018 Farm Bill also forbids states from prohibiting the transportation or shipment of hemp or hemp products, including hemp-CBD, through the state if produced in accordance with the 2018 Farm Bill. Until full implementation of the 2018 Farm Bill, there may be uncertainty regarding the transportation of hemp products around the United States, which may present a financial risk to those hemp companies in which you may invest.

Finally, the 2018 Farm Bill provides that it does not affect the FD&C Act, among other things, as well as the authority of the Commissioner of Food and Drugs to promulgate regulations and guidelines under the FD&C Act. The United States Congress explicitly preserved the FDA’s current authority to regulate products containing cannabis or cannabis-derived compounds under the FD&C Act such as food, beverages and dietary supplements as discussed further as follows.

The potential impact of the FD&C Act on the growth and sale of hemp and hemp-derived products. The FD&C Act establishes a comprehensive federal scheme to regulate food, drugs, and cosmetics, among other things. Under the FD&C Act, the introduction of “new drugs” into interstate commerce without meeting certain regulatory approvals is prohibited. In addition, the FD&C Act proscribes the introduction of adulterated or misbranded drugs into interstate



commerce. With the passing of the 2018 Farm Bill, the FDA issued a statement “clarifying” its position on the regulation of products containing cannabis and cannabis-derived products (the “Statement”).

The Statement begins with the broad proposition that the FDA will “treat products containing cannabis or cannabis-derived compounds as we do any other FDA-regulated products” regardless of the source of the substance. Despite this position, the Statement recognizes the “growing public interest in cannabis and cannabis-derived products, including [CBD],” as well as the “potential opportunities that cannabis or cannabis-derived products.” The FDA then promises to “continue to take steps to make the pathways for the marketing of these products more efficient.” Conservative estimates suggest that it will take another 18-24 months for the FDA to implement these steps; the FDA has a designated group to review the issue.

Substantively, the Statement provides that “[c]annabis and cannabis-derived products claiming in their marketing and promotion materials that they are intended for use in the diagnosis, cure, mitigation, treatment, or prevention of diseases (such as cancer, Alzheimer’s disease, psychiatric disorders and diabetes) are considered new drugs or new animal drugs and must go through the FDA drug approval process for human or animal use before they are marketed in the U.S.” The Statement also provides that “it’s unlawful under the FD&C Act to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements. . . . because both CBD and THC are active ingredients in FDA-approved drugs (Epidiolex) and were the subject of substantial clinical investigations before they were marketed as foods or dietary supplements.” Considering that the FDA considers CBD a drug and that ingestible products cannot be sold with CBD in them unless and until they receive regulatory approval, there is regulatory and financial risk to any company selling such products and, thus, to that company’s stockholders.

That said, a careful reading of the Statement suggests that the FDA’s enforcement priorities involve only the most serious health claims. In fact, since 2015, the FDA has issued warning letters to twenty-two different entities: six in 2015, eight in 2016, four in 2017, one in 2018, and (to date) four in 2019 thus far. A cursory reading of these letters supports the above conclusion that the FDA is mainly focusing on serious health claims. At bottom, “when a product is in violation of the FD&C Act, the FDA considers many factors in deciding whether or not to initiate an enforcement action. Those factors include, among other things, agency resources and the threat to the public health.” Although the FDA has focused only on sending cease and desist letters to date regarding the marketing of CBD products, there is a risk that the FDA changes its position and seeks to further enforce the FD&C Act in a manner that has not been done to date regarding cannabis-infused products.

On May 31, 2019, the FDA conducted hearings on, among other things, CBD. The FDA is committed to review this issue further and to develop regulations to oversee the use of CBD. Unfortunately, there is no definitive timeframe for the FDA to take action and provide further guidance on the sale of CBD products. Certain companies who are in the hemp business have taken the position that their sale of hemp derived products predates the FDA’s approval of Epidiolex and are thus otherwise permitted. No court has addressed the respective positions of the FDA and the hemp industry. FDA regulations or an adverse court decision regarding the position of the hemp industry could impact the value of a security.

Potential impact of state laws until implementation of the 2018 Farm Bill. As noted above, the 2014 Farm Bill will remain intact until one year after a federal plan is established. Before Congress passed the 2018 Farm Bill, many states enacted hemp-related statutes in accordance with the 2014 Farm Bill. The 2014 Farm Bill permitted qualifying individuals and entities—through state agricultural pilot programs—to grow, cultivate, and market industrial hemp for research purposes only.

Most state hemp laws and regulation are, therefore, tailored specifically to conform to the 2014 Farm Bill requirements, including the research requirement. Because the 2014 Farm Bill offered little detail about the limitations and restrictions of its applicability, including what qualifies



as “market research,” multiple federal agencies and the DOJ filed a Statement of Principles on Industrial Hemp to clarify. Among other things, the statement explained that the 2014 Farm Bill permits the sale of industrial hemp in states with an agricultural pilot program for the purpose of market research, but prohibits general commercial activity, as well as the inter-state transportation of hemp plants and seeds.

Importantly, the 2014 Farm Bill, as well as most of the state analogs, contemplate the growth and cultivation of industrial hemp, not the commercial sale or distribution of hemp or hemp products. It is, thus, unclear whether companies in which the Fund invests are subject to the 2014 Farm Bill, as well as the state analogs if they were to start selling hemp-based CBD-infused products before implementation of the 2018 Farm Bill. This lack of clarity is exacerbated by the few states that have passed hemp laws, apparently in accordance with the 2014 Farm Bill, which contemplate the sale of hemp and hemp products.

As for state controlled substances laws, which apply more directly to the sales by companies (in which the you may invest) of hemp-CBD products, the question is whether states may classify hemp as a controlled substance despite the 2018 Farm Bill. Before the 2018 Farm Bill, many states carved out an exception to their marijuana drug laws for industrial hemp produced in accordance with the 2014 Farm Bill and their respective state programs. States did so by (1) amending their drug laws expressly to exclude industrial hemp grown in compliance with state pilot programs from the definition of “marijuana”; (2) including a provision in their hemp laws removing industrial hemp grown in compliance with state pilot programs from the definition of “marijuana”; (3) including a provision in their hemp laws that provided immunity from prosecution if the grower or processor complied with state law; or (4) a combination of the previous three. Those states that have tied the definition of “marijuana” to compliance with their state hemp laws are in question because, under the 2018 Farm Bill, hemp is not a controlled substance even if an entity does not comply with a state hemp program. Nevertheless, this lack of certainty and risk will remain until the 2018 Farm Bill is fully implemented.

~ Emerging Market Risk - Many of the risks with respect to foreign investments are more pronounced for investments in issuers in developing or emerging market countries. Emerging market countries tend to have more government exchange controls, more volatile interest and currency exchange rates, less market regulation, and less developed economic, political and legal systems than those of more developed countries. In addition, emerging market countries may experience high levels of inflation and may have less liquid securities markets and less efficient trading and settlement systems.

~ Industry and Security Risk - the risk that the value of securities in a particular industry or the value of an individual stock or bond will decline because of changing expectations for the performance of that industry or for the individual company issuing the stock or bond.

~ Selection Risk — The risk that the securities selected may underperform the markets or the relevant indices. The securities selected may vary from the securities included in the relevant index.

~ Large Cap Company Risk - Larger more established companies may be unable to respond quickly to new competitive challenges such as changes in technology and consumer tastes. Many larger companies also may not be able to attain the high growth rate of successful smaller companies, especially during extended periods of economic expansion.

~ Mid Cap Risk - mid cap stocks tend to have a greater exposure to market fluctuations and failure.



~ Small Cap Risk - small cap stocks tend to have a high exposure to market fluctuations and failure.

~ Micro Cap Risk - low-priced stocks issued by the smallest of companies. Many microcap companies do not file financial reports with the SEC, so it's hard for investors to get the facts about the company's management, products, services, and finances. Microcap stocks historically have been more volatile and less liquid than the stock of larger companies.

~ REITs Risk – REITs may be subject to certain risks associated with the direct ownership of real property including declines in the value of real estate, risks related to general and local economic conditions, over building and increased competition, increase in property taxes and operating expenses, and variations in rental income. REITs are dependent on management skills, are not diversified, and are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs (especially mortgage REITs) are also subject to interest rate risk. When interest rates decline, the value of a REIT's investment in fixed-rate obligations can be expected to rise. Conversely, when interest rate rise, the value of a REIT's investment in fixed-rate obligations can be expected to decline. Mortgage REITs may be affected by the quality of any credit extended to them.

~ Exchange-Traded Funds ("ETFs") - ETFs are investment companies whose shares are listed on a securities exchange and trade like a stock throughout the day. Investments in ETFs are subject to a variety of risks, including risks associated with the underlying securities that the ETF holds. ETFs that track particular indices typically will be unable to match the performance of the index exactly due to the ETF's operating expenses and transaction costs, among other things.

~ Investments in Other Investment Companies Risk - Investments in other investment companies will be subject to the risks of the purchased investment company's portfolio securities. Shareholders must bear not only their proportionate share of the Fund's fees and expenses, but they also must bear indirectly the fees and expenses of the other investment company.

~ New Issuer Risk – New Issuers have been in the business less than 3 years, may face increased pressures from established companies, new unseasoned management, may be more volatile and may offer less liquidity than larger companies.

~ Pharmaceutical Company Risk - Companies in the pharmaceutical industry are heavily dependent on patent protection. The expiration of patents may adversely affect the profitability of the companies. Pharmaceutical companies are also subject to extensive litigation based on product liability and other similar claims. Many new products are subject to approval of the Food and Drug Administration, a process that can be long and costly. Expanding international operations may lead to risks resulting from differences between U.S. and foreign legal, political and economic systems, regulatory regimes and market practices.

~ Liquidity Risk – You may face increased liquidity risk which is the risk that a given security or asset may not be readily marketable.

~ Convertible Securities Risk - Convertible securities have the risk of loss of principal at maturity, but this loss is limited to the value of the bond floor.

~ Foreign Investment Risk - The prices of foreign securities may be more volatile than the prices of securities of U.S. issuers because of economic and social conditions abroad, political developments, and changes in the regulatory environments of foreign countries. In addition, changes in exchange rates and interest rates may adversely affect the values of your security.

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Foreign companies are generally subject to different legal and accounting standards than U.S. companies, and foreign financial intermediaries may be subject to less supervision and regulation than U.S. financial firms. Foreign securities include American Depositary Receipts (“ADRs”) and Global Depositary Receipts (“GDRs”). Unsponsored ADRs and GDRs are organized independently and without the cooperation of the foreign issuer of the underlying securities, and involve additional risks because U.S. reporting requirements do not apply. In addition, the issuing bank may deduct shareholder distribution, custody, foreign currency exchange, and other fees from the payment of dividends.

~ Risks Related to Investing in Canada - Because some of the investments of the Fund may be geographically concentrated in Canadian companies or companies that have a significant presence in Canada, investment results could be dependent on the condition of the Canadian economy. The Canadian economy is reliant on the sale of natural resources and commodities, which can pose risks such as the fluctuation of prices and the variability of demand for exportation of such products. Changes in spending on Canadian products by other countries or changes in the other countries’ economies may cause a significant impact on the Canadian economy. In particular, the Canadian economy is heavily dependent on relationships with certain key trading partners, including the United States and China.

~ Cybersecurity Risk. Cybersecurity incidents may allow an unauthorized party to gain access to assets, customer data (including private shareholder information), or proprietary information, or cause a Fund, an Adviser, and/or other service providers (including custodians, sub-custodians, transfer agents and financial intermediaries) to suffer data breaches, data corruption or loss of operational functionality. In an extreme case, a shareholder’s ability to exchange or redeem shares may be affected.

Loss of some or all of the money you invest is a risk of investing in any security. Before you invest you should carefully evaluate the risks associated with investing in companies involved in the legal cannabis and hemp business.

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the firm or the integrity of the firm’s management.

Like many Advisory firms, Investment Research Corporation voluntarily participated in the Share Class Selection Disclosure (“SCSD”) Initiative. The Security and Exchange Commission (“SEC”) described the SCSD Initiative as “a self-reporting program designed to address potentially widespread violations of the federal securities laws resulting from investment advisers failing to make required disclosures relating to their selection of mutual fund share classes that paid the advisers (as dually registered broker-dealers) or their related entities or individuals a fee pursuant to Rule 12b-1 of the Investment Company Act of 1940 (“12(b)-1” fee) when a lower-cost share class for the same fund was available to clients” and adequacy of the disclosures arising from the resulting conflicts of interest. A 12(b)-1 fee is an annual marketing or distribution fee on a mutual fund. The 12b-1 fee is considered to be an operational expense and, as such, is included in a fund’s expense ratio. It is generally between 0.25% and 0.75% (the maximum allowed) of a fund’s net assets.”

As a result, IRC was issued a Cease and Desist Order by the SEC and made clients whole who were adversely affected by share class selection when a lower-cost share class for the same fund was available to the client. These payments were made to 38 account holders (several of which

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had multiple accounts within the same household) in amounts that totaled \$33,188. IRC also engaged in certain undertakings including reviewing and updating, where necessary, the adequacy of all relevant disclosure documents concerning mutual fund share class selection and 12b-1 fees; evaluating whether existing clients should be moved to lower cost share classes; as well as reviewing its policies and procedures to ensure they are reasonably designed to prevent violations of the Advisers Act in connection with disclosures regarding mutual fund share class selection.

The SCSD Order found IRC willfully violated; 1) Section 206(2) of the Advisers Act which makes it unlawful for any investment adviser, directly or indirectly to “engage in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client,” and 2) Section 207 of the Advisers Act which makes it “unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission... or willfully to omit to state in any such application or report any material fact which is required to be stated therein.”

Additional information regarding the SCDC Initiative may be found at <https://www.sec.gov/enforce/announcement/scsd-initiative>

### **Other Financial Industry Activities or Affiliations**

World Capital Brokerage, Inc., an affiliated company of Investment Research Corporation, is registered with the Securities and Exchange Commission and Financial Regulatory Authority as a Broker-Dealer for which Timothy Taggart is the Owner, President and Chief Compliance Officer, Patricia Blum is a Vice President and a Limited Principal and Michael L. Gaughan is a Vice President, Corporate Secretary and Operations Professional.

An IAR of the Firm may also be registered with WCB as a Registered Representative. Therefore, an IAR may be able to offer a client both investment advisory and brokerage services. Before engaging with an IAR, clients should take time to consider the differences between an advisory relationship and a brokerage relationship, and the costs related with each, to determine which type of services best services the client's investment needs and goals. Client should speak to the IAR to understand the different types of services available through the Firm and WCB.

Timothy Taggart is also the President and a member of the Investment Committee for American Growth Fund, Inc. Patricia Blum is a Vice President and Michael Gaughan is the Chief Compliance Officer and Corporate Secretary for American Growth Fund.

World Capital Brokerage, Inc. is the underwriter for American Growth Fund, Inc. The Firm has an investment advisory agreement with American Growth Fund, Inc.

The Firm does not recommend clients to affiliated companies.

The Firm does not engage in a business other than giving investment advice nor does it sell products or services other than investment advice to clients. The principal business of the Firm and of its principal executive officers does not involve something other than providing investment advice.

American Growth Fund, Inc. uses World Capital Brokerage, Inc. as a vehicle for trading, however, currently pays no commissions to World Capital Brokerage, Inc.



The Firm, American Growth Fund, Inc. and World Capital Brokerage, Inc. are a trio of companies. World Capital Brokerage, Inc. offers shares of the American Growth Fund to retail customers as well as underwriting services to other Broker Dealer clients.

### **Code of Ethics, Participation or Interest in Client Transaction and Personal Trading**

The Firm has adopted a Code of Ethics pursuant to SEC rule 201A-1. The Code of Ethics is available at [www.invresearch.com/downloads.htm](http://www.invresearch.com/downloads.htm) or by calling 303-626-0634.

Associates of IRC are prohibited from recommending securities in which they have a material financial interest without first gaining express written consent and instructions from the Chief Compliance Officer.

All access persons are prohibited from recommending or executing a securities transaction on a day during which Firm has a pending "buy" or "sell" order in that same security until that order is executed or withdrawn.

Any such trades generally will be unwound or, if that is impractical, all profits from the trading will be disgorged to the appropriate investment company (or, alternatively, to a charitable organization).

### **Brokerage Practices**

The Firm does not recommend brokerage firms to any clients. Additionally, Advisor Representatives and Clients have no restrictions as to which brokerage firm they conduct business with. Certain regulations may require Investment Advisor Representatives who are also Registered Representatives to utilize World Capital Brokerage, Inc. as their brokerage firm.

### **Review of Accounts**

Reviews of accounts must be performed by the Investment Advisor Representative quarterly or as market warrants. These reviews must be in writing. Additionally, Investment Advisor Representatives must review the client's account with that client in person (or via an internet video web cast), over the telephone or via U.S. Mail.

Quarterly reports to clients from the Investment Advisory Representative must be in written form and include, at a minimum;

- Current Quarterly Holdings, Value and Performance,
- Rolling Twelve Month Performance, and
- Quarterly Activity Report.

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

The Firm does not compensate for client referrals.

### **Custody**

The Firm does not keep custody of client funds or securities. Account statements are sent quarterly and as frequently as monthly, in some cases, directly to the client from the custodian. You should carefully review these statements and contact your IAR with any questions you may have.



### **Investment Discretion**

The Firm does have authority from American Growth Fund, Inc. to determine, without first obtaining specific client consent to;

- Securities to be bought or sold,
- The amount of the securities to be bought or sold,
- The Broker-Dealer to be used, and
- Commission rates paid.

Discretionary authority can be gained by the Investment Advisor Representative by entering into a contract with the client(s) that specifically states such authority in that contract.

### **Voting Client Securities**

The firm does not have and will not accept authority to vote client securities excluding the one discretionary account mentioned immediately above. For more details regarding how your securities are voted please contact your third party vendor directly or your Investment Advisor Representative.

### **Balance Sheet**

The Firm does not require prepayment of more than \$1,200.00 in fees per client or payment of fees by clients six or more months in advance. Therefore, the Firm is not required to include a balance sheet.

The Firm has not been the subject of a bankruptcy petition at any time during the past ten (10) years.

