

# Disclosure Brochure

March 9, 2019

## **CAPITAL MANAGEMENT SERVICES, INC.**

*a Registered Investment Adviser*

This brochure provides information about the qualifications and business practices of Capital Management Services, Inc. (hereinafter “CMS” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at the telephone number listed below. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). CMS is an SEC registered investment adviser. Registration does not imply any level of skill or training.

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**Item 2. Material Changes**

In this Item, CMS is required to discuss any material changes that have been made to the brochure since the last annual amendment dated April 15, 2019. The Firm has updated various sections of this brochure to remove reference to investment managers no longer used by the firm, Strafford Asset Management and Federated Investment Counseling. The Firm has also updated its description of its Investment Strategies in Item 8. The Firm has no other changes to disclosed in relation to this Item.

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## Item 4. Advisory Business

CMS seeks to carefully address clients' needs and concerns and deliver high quality investment services that correspond to a client's unique objectives. As such, the Firm encourages each of its clients to go through both a risk analysis and an asset allocation survey to ensure that any strategic investment planning truly reflects a client's financial goals.

CMS offers a variety of advisory services, which primarily include financial planning, consulting and investment management services but may also include pension consulting. CMS provides services to over 500 clients throughout the United States from its headquarters in Wayne, Pennsylvania, the majority of which are pre- and post-retirees, business owners, corporate executives and professionals, a clientele with planning needs ranging from the simple to the complex. Prior to the rendering of any of the foregoing advisory services, clients are required to enter into one or more written agreements with CMS setting forth the relevant terms and conditions of the advisory relationship (the "*Agreement*").

CMS, wholly owned by Michael Ellis Feldman, has been an independent registered investment adviser since November 1987 but the Firm has been providing comprehensive financial services since 1976. As of December 31, 2019, CMS had \$255,713,070 in assets under management, \$250,663,837 of which was managed on a discretionary basis and \$5,049,233 was managed on a non-discretionary basis.

While this brochure generally describes the business of CMS, certain sections also discuss the activities of its *Supervised Persons*, which refer to the Firm's officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on CMS' behalf and is subject to the Firm's supervision or control.

### **Financial Planning and Consulting Services**

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Using a step-by-step process, an experienced team of professionals seeks to provide a comprehensive written financial plan. This plan will help a client to identify goals and objectives, provide current and projected summaries as well as a detailed examination of a client's financial landscape. A plan will also typically demonstrate a year-by-year progress toward retirement or other goals. The plan is aimed at simplifying a client's life in order to allow a client to gain control of their financial future.

To that end, CMS offers clients a range of financial planning and consulting services, which may include any or all of the following functions:

- Cash Flow and Tax Forecasting
- Asset Allocation
- Retirement Planning
- Estate and Trust Planning
- Investment Consulting
- Insurance Needs Analysis
- Retirement Plan Analysis
- Charitable Giving Strategies
- Risk Management Review
- Business and Succession Planning

While each of these services is available on a standalone basis, certain of them may also be rendered in conjunction with investment portfolio management as part of a comprehensive wealth management engagement (described in detail below). In performing these services, CMS is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information.

CMS may recommend the services of itself, its Supervised Persons in their individual capacities as insurance agents or registered representatives of a broker-dealer and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if clients engage CMS or its affiliates to provide additional fee-based services. Clients retain absolute discretion over all decisions regarding implementation and are under no obligation to act upon any of the recommendations made by CMS under a financial planning or consulting engagement or to engage the services of any such recommended professionals, including CMS itself. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising CMS' previous recommendations and/or services.

### **Investment Management and Wealth Management Services**

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CMS offers to manage client investment portfolios on a discretionary or non-discretionary basis. In addition, CMS may provide clients with wealth management services which may include a broad range of comprehensive financial planning and consulting services as well as discretionary and/or non-discretionary management of investment portfolios. Depending on the advisory services a client elects, CMS allocates client assets among various third party independent investment managers ("*Third Party Managers*"), mutual funds, ETFs, individual debt and equity securities and options, in accordance with the investment objectives of its individual clients. In addition, in limited circumstances based on unique client needs, CMS also recommends that clients who qualify as accredited investors, as defined by Rule 501 of the Securities Act of 1933, invest in privately placed securities, which may include debt, equity and/or interests in pooled investment vehicles (e.g., private real estate investment trusts). Where appropriate, the Firm also provides advice about any type of legacy position or other investment held in client portfolios, but clients should not

assume that these assets are being continuously monitored or otherwise advised on by the Firm unless specifically agreed upon.

Specifically, a client may elect advisory services in accordance with one or more of the following offerings:

#### *CMS Wealth Management*

A client may elect CMS Wealth Management, or direct management through CMS Wealth Management. Through such, the Firm allocates a client's assets among various asset classes, but typically CMS will utilize individual securities, institutional share (priced) class and no-load funds, *Third Party Managers*, exchange-traded funds ("ETFs") and options. A client may also elect to have a portion of assets allocated to a concentrated portfolio of individual stocks.

#### *CMS Third Party Managers*

CMS may recommend the utilization of a Third Party Manager that serves as a sub-adviser to the Firm's clients. The client will be subject to a portfolio minimum which may be waived at the sole discretion of the Third Party Manager. The Firm utilizes Third Party Managers (defined and described in more detail below) to assist in the selection of individual securities or asset allocation. *Third Party Managers* are screened based upon the following: asset class, performance, risk level, style consistency, fees, as well as experience and longevity of the managers. CMS provides ongoing due diligence. To the extent possible, CMS will monitor Third Party Managers and consult with the client as necessary.

#### *Additional Services*

Clients may also engage CMS to advise on certain investment products that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, CMS directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product's provider.

CMS tailors its advisory services to meet the needs of its individual clients and continuously seeks to ensure that client portfolios are managed in a manner consistent with their specific investment profiles. CMS consults with clients on an initial and ongoing basis to determine their specific risk tolerance, time horizon, liquidity constraints and other qualitative factors relevant to the management of their portfolios. Clients are advised to promptly notify CMS if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if CMS determines, in its sole discretion that the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts.

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**Sponsor and Manager of Wrap Program**

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CMS is the sponsor and manager of the Capital Management Services Wrap Fee Program (the “Program”), a wrap fee program (i.e., an arrangement where most brokerage commissions and transaction costs are absorbed by the Firm). While not currently offered, certain legacy client portfolios may be managed through the Program. Accounts managed through the Program are done so in substantially the same manner as those managed under a non-wrap arrangement. Participants in the Program may pay a higher aggregate fee than if investment management and brokerage services are purchased separately. Additional information about the *Program* is available in CMS’s Wrap Brochure, which appears as Part 2A Appendix 1 of the Firm’s Form ADV.

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**Use of Third Party Managers**

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As mentioned above, where appropriate, CMS utilizes different Third Party Managers to actively manage a portion of its clients’ assets. The specific terms and conditions under which a client engages a Third Party Manager are set forth in a separate written agreement between the designated Third Party Managers and either CMS or the client. CMS does not receive compensation from any such Third Party Managers.

CMS evaluates various information about the Third Party Managers it chooses to manage client portfolios, which may include the Third Party Managers’ public disclosure documents, materials supplied by the Third Party Managers themselves and other third-party analyses it believes are reputable. To the extent possible, the Firm seeks to assess the Third Party Managers’ investment strategies, past performance and risk results in relation to its clients’ individual portfolio allocations and risk exposure. CMS also takes into consideration each Third Party Managers’ management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other factors.

CMS continues to provide services relative to the discretionary selection of the Third Party Managers. On an ongoing basis, the Firm monitors the performance of those accounts being managed by Third Party Managers. CMS seeks to ensure the Third Party Managers’ strategies and target allocations remain aligned with its clients’ investment objectives and overall best interests.

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**Retirement Plan Consulting Services**

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CMS provides various consulting services to qualified employee benefit plans and their fiduciaries. This suite of institutional services is designed to assist plan sponsors in structuring, managing and optimizing their corporate retirement plans.

Each engagement is individually negotiated and customized, and includes one or more of the following services:

- Plan Design and Strategy
- Plan Review and Evaluation
- Executive Planning & Benefits
- Investment Selection
- Plan Fee and Cost Analysis
- Plan Committee Consultation
- Fiduciary and Compliance
- Participant Education

As disclosed in the Advisory Agreement, certain of the foregoing services are provided by CMS as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). In accordance with ERISA Section 408(b)(2), each plan sponsor is provided with a written description of CMS's fiduciary status, the specific services to be rendered and all direct and indirect compensation the Firm reasonably expects under the engagement.

## Item 5. Fees and Compensation

CMS offers its services on a fee basis, which includes hourly and/or fixed fees, as well as fees based upon assets under management or advisement. Additionally, certain of CMS' *Supervised Persons*, in their individual capacities, offer securities brokerage services and insurance products under a separate unaffiliated commission-based arrangement.

### Financial Planning and Consulting Fees

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CMS generally charges either a negotiable hourly and/or flat fee to provide clients with stand-alone financial planning or consulting services. These fees are largely determined by the scope and complexity of the agreed upon services and generally range from \$150 to \$350 on an hourly basis.

The specific terms and fee structure are negotiated in advance and set forth in the *Agreement* with CMS. Generally, CMS requires a portion of the financial planning or consulting fee payable upon execution of the *Agreement* and the balance due at the time the financial plan is delivered or the underlying services are rendered to completion. If the client engages CMS for additional investment advisory services, CMS may offset all or a portion of its fees for the financial planning and consulting services based upon the amount paid for the investment advisory services.

### Investment Management and Wealth Management Fees

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CMS provides investment management services for an annual fee based on the amount of assets under the Firm's management and the program through which the client is provided services. The fee varies depending upon the size of a client's portfolio and the type of services rendered and is generally based on the following fee schedules:



*CMS Wealth Management*

PORTFOLIO VALUE	ANNUAL FEE
First \$2,000,000	1.25%
Next \$1,000,000	1.00%
Next \$2,000,000	0.75%
Above \$5,000,000	Negotiable

*CMS Third Party Managers*

PORTFOLIO VALUE	ANNUAL FEE
First \$2,000,000	1.50%
Next \$3,000,000	1.25%
Next \$5,000,000	1.00%
Above \$10,000,000	Negotiable

The annual fee is prorated and either charged quarterly in advance, based upon the market value of the assets being managed by CMS on the last day of the previous billing period or quarterly in arrears based upon the market value of the assets being managed by CMS during the previous quarter, adjusted as described below.

If assets are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is adjusted to reflect the change in portfolio value. If the fee is determined by the average daily account balance, and assets are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is adjusted accordingly. For the initial period of an engagement, the fee is calculated on a *pro rata* basis. In the event the *Agreement* is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding balance is charged to the client or the unearned portion is refunded to the client, as appropriate.

Clients are advised that a conflict of interest exists for the Firm to recommend that clients engage CMS for additional services for compensation, including rolling over retirement accounts or moving other assets to the Firm's management. Clients retain absolute discretion over all decisions regarding engaging the Firm and are under no obligation to act upon any of the recommendations.

**Retirement Plan Consulting Fees**

CMS charges an asset-based fee for retirement plan consulting services. Each engagement is individually negotiated and tailored to accommodate the needs of the individual plan sponsor, as memorialized in the *Agreement*. These fees vary, based on the scope of the services to be rendered, and range up to 0.50% per annum of assets under management.

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**Fee Discretion**

CMS, in its sole discretion, may negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client relationship, account retention and *pro bono* activities.

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**Additional Fees and Expenses**

In addition to the advisory fees paid to CMS, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively "Financial Institutions"). These additional charges can include securities brokerage commissions, transaction fees, custodial fees, fees charged by the Third Party Managers, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), fees and expenses associated with alternative investments (including private funds), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions. The Firm's brokerage practices are described at length in Item 12, below.

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**Fee Debit**

Clients generally provide CMS with the authority to directly debit their accounts for payment of the Firm's investment advisory fees. The Financial Institutions that act as qualified custodian for client accounts have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to CMS.

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**Account Additions and Withdrawals**

Clients may make additions to and withdrawals from their account at any time, subject to CMS' right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to CMS, subject to the usual and customary securities settlement procedures. However, CMS designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (i.e., contingent deferred sales charge) and/or tax ramifications.

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**Commissions or Sales Charges for Recommendations of Securities**

Clients can engage certain persons associated with CMS (but not CMS) to render securities brokerage services under a separate commission-based arrangement. Such securities brokerage services are limited and provided only as an accommodation to clients looking to place their variable annuities with a broker-

dealer. Clients are under no obligation to engage such persons and may choose brokers or agents not affiliated with CMS.

Under this arrangement, the Firm's Supervised Persons, in their individual capacities as registered representatives APW Capital, Inc. ("APWC") provide the above-referenced securities brokerage services and implement securities transactions under a separate commission based arrangement. Supervised Persons are generally entitled to a share of the compensation from the sale of variable annuities. Prior to effecting any transactions clients are required to enter into a new account agreement with APWC. The brokerage commissions charged by APWC may be higher or lower than those charged by other broker-dealers.

A conflict of interest exists to the extent that a Supervised Person of CMS arranges for or recommends the purchase of variable annuities through a brokerage relationship where that Supervised Person receives compensation as a result of that recommendation (the "Brokerage Relationship"). The Firm has procedures in place to ensure that any recommendations made by such Supervised Persons to engage in the Brokerage Relationship are in the best interest of that client. Clients should understand that the investments made in the Brokerage Relationship are not receiving advisory services from the Firm. Therefore, the Firm does not have a fiduciary duty to the client with respect to the Brokerage Relationship recommendations.

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

CMS does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

## **Item 7. Types of Clients**

CMS provides its services predominantly to individuals, trusts and estates, and pension plans.

### **Minimum Portfolio Size**

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#### *CMS Third Party Managers*

As a condition for the use of Third Party Managers, CMS generally imposes a minimum portfolio size of \$1,000,000.

The Firm, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client relationships, account retention and *pro bono* activities. CMS only accepts clients with less than the minimum portfolio size if, in the sole opinion of the Firm, the smaller portfolio size will not result in a substantial increase of investment risk beyond the

client's identified risk tolerance. CMS may aggregate the portfolios of family members to meet the minimum portfolio size.

Additionally, certain Third Party Managers may impose more restrictive account requirements and varying billing practices than CMS. In such instances, CMS may alter its corresponding account requirements and/or billing practices to accommodate those of the Third Party Managers.

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

### **Methods of Analysis**

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CMS generally utilizes a combination of fundamental and technical methods of analysis.

Fundamental analysis involves an evaluation of the financial condition and competitive position of a particular fund or security. For CMS, this process typically involves an analysis of entity's management team, investment strategies, style drift, past performance, reputation and financial strength in relation to the asset class concentrations and risk exposures of the Firm's target asset allocations. A substantial risk in relying solely upon fundamental analysis is that while the overall health and position of a company may be good, evolving market conditions may negatively impact the security.

Technical analysis involves the examination of past market data rather than specific issuer information in determining the recommendations made to clients. Technical analysis may involve the use of mathematical based indicators and charts, such as moving averages and price correlations, to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. A substantial risk in relying solely upon technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that CMS will be able to accurately predict such a reoccurrence.

### **Investment Strategies**

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#### *Portfolio Construction Philosophy*

CMS' "Customized yet Quantified" modular approach allows for seamless integration with existing client holdings. Modules are designed to enhance diversification while accommodating current positions. Each module is managed to its own benchmark and tactically adjusted as market conditions necessitate. Modules can be stand alone or combined proportionately to create complete portfolios. Modular design allows for trading efficiencies and more effective portfolio monitoring at the firm level. We are able to offer a distinct level of customization while still ensuring prudent portfolio management procedures.

**Modules:**

- 1) Core Equity – designed to capture the primary elements of the equity universe. The module uses various mutual funds, ETFs and stocks to obtain exposure to multiple market capitalizations and geographic segmentation. \*\*Included Models: HQDY, G10, Crosspoint.
- 2) Diversified Bond – The module is offered in taxable and tax sensitive formats and utilizes a combination of mutual funds, ETFs, CDs and individual bonds to create a bond portfolio currently focused on short duration and safety of principal. \*\*Included Managers: Wasmer Schroeder and Breckenridge.
- 3) Satellite – designed to enhance overall portfolio diversification via assets with low correlation to traditional equities and/or fixed income.

**Portfolios:**

- 4) HQDY Portfolio – This is a stock model comprised of 10-14 individual stocks that exhibit high quality fundamental characteristics in terms of cash flow and dividend yield. Universe is rescreened each month and changes are made accordingly across the entire group. At present, with many of these stocks trading at or above fair value measures, we will utilize covered put writing strategies as a way to potentially purchase the underlying names at discounted prices.
- 5) G10 Portfolio – Stock model comprised of ten individual stocks which exhibit growth characteristics such as positive Earnings Surprise and above average EPS growth rates. Universe is rescreened monthly and changes are made accordingly across the entire group.
- 6) Crosspoint Portfolio – This is an ETF model based off of proprietary quantitative signals created to gauge relative strength of the stock market. Based on the indication of the signal, the portfolio could range anywhere from 100% stock to 100% cash.

***Selection of CMS Third Party Managers***

The Firm seeks to identify *Third Party Managers* that exemplify the qualities and employ the appropriate services in accordance with the needs of its clients. In utilizing Third Party Managers, CMS is able to diversify portfolios and offer a breadth of opportunities that may not otherwise be available.

**Risks of Loss**

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***General Risk of Loss***

Investing in securities involves the risk of loss. Clients should be prepared to bear potential losses.

***Market Risks***

The profitability of a significant portion of CMS' recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that CMS will be able to predict those price movements accurately.

*Volatility Risks*

The prices and values of investments can be highly volatile, and are influenced by, among other things, interest rates, general economic conditions, the condition of the financial markets, the financial condition of the issuers of such assets, changing supply and demand relationships, and programs and policies of governments.

*Cash Management Risks*

The Firm may invest some of a client's assets temporarily in money market funds or other similar types of investments, during which time an advisory account may be prevented from achieving its investment objective.

*Equity-Related Securities and Instruments*

The Firm may take long and short positions in common stocks of U.S. and non-U.S. issuers traded on national securities exchanges and over-the-counter markets. The value of equity securities varies in response to many factors. These factors include, without limitation, factors specific to an issuer and factors specific to the industry in which the issuer participates. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments, and the stock prices of such companies may suffer a decline in response. In addition, equity securities are subject to stock risk, which is the risk that stock prices historically rise and fall in periodic cycles. U.S. and non-U.S. stock markets have experienced periods of substantial price volatility in the past and may do so again in the future. In addition, investments in small-capitalization, mid-capitalization and financially distressed companies may be subject to more abrupt or erratic price movements and may lack sufficient market liquidity, and these issuers often face greater business risks.

*Fixed Income Securities*

Fixed income securities are subject to the risk of the issuer's or a guarantor's inability to meet principal and interest payments on its obligations and to price volatility.

*Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholder fees (e.g., sales loads, purchase fees, redemption

fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV. However, certain inefficiencies may cause the shares to trade at a premium or discount to their *pro rata* NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

#### *Use of Third Party Managers*

CMS may recommend the use of Third Party Managers. In these situations, CMS continues to do ongoing due diligence of such managers, but such recommendations rely to a great extent on the Third Party Managers' ability to successfully implement their investment strategies. In addition, CMS does not have the ability to supervise the Third Party Managers on a day-to-day basis.

#### *Management Through Similarly Managed Model Accounts*

CMS manages certain accounts through the use of similarly managed model portfolios, whereby the Firm allocates all or a portion of its clients' assets among various mutual funds and/or securities on a discretionary basis using one or more of its proprietary investment strategies. In managing assets through the use of models, the Firm remains in compliance with the safe harbor provisions of Rule 3a-4 of the Investment Company Act of 1940.

The rebalancing strategy used to manage a model portfolio may involve an above average portfolio turnover that could negatively impact clients' net after tax gains. While the Firm seeks to ensure that clients' assets are managed in a manner consistent with their individual financial situations and investment objectives, securities transactions effected pursuant to a model investment strategy are usually done with some regard to a client's individual tax ramifications. Clients should contact CMS if they experience a change in their financial situation or if they want to impose reasonable restrictions on the management of their accounts.

## **Item 9. Disciplinary Information**

CMS has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of its management.

## Item 10. Other Financial Industry Activities and Affiliations

### Registered Representatives of Broker Dealer

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Certain of the Firm's Supervised Persons, in their individual capacities, are registered representatives of APWC and provide clients with securities brokerage services under a separate commission-based arrangement. This arrangement is described at length in Item 5.

### Licensed Insurance Brokers or Agents

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Certain of CMS' Supervised Persons, in their individual capacities, are also licensed insurance agents or brokers. When appropriate, these Supervised Persons, in their individual capacities, may recommend the purchase of certain insurance or annuity products to advisory clients on a fully-disclosed basis. A conflict of interest exists to the extent that CMS recommends the purchase of insurance or annuity products where its *Supervised Persons* receive insurance commissions or other additional compensation. As a result, CMS has procedures in place to address any such conflict.

### Fees from Third Party Managers

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As discussed above, CMS recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain Third Party Managers. In certain circumstances CMS's compensation is included in the advisory fee charged by such Third Party Managers. Therefore, there may be a conflict of interest to choose such Third Party Managers.

## Item 11. Code of Ethics

CMS has adopted a code of ethics in compliance with applicable securities laws ("Code of Ethics") that sets forth the standards of conduct expected of its Supervised Persons. CMS' Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of CMS' personnel (called "Access Persons") to report their personal securities holdings and transactions and obtain pre-approval of certain investments (e.g., initial public offerings, limited offerings). However, CMS Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a manner consistent with the Firm's policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by Access Persons to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated below.



When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Access Person may knowingly effect for themselves or for their immediate family (i.e., spouse, minor children and adults living in the same household as the Access Person) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the Access Person is completed as part of a batch trade (as defined below in Item 12) with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government

of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by open-end mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact CMS to request a copy of its Code of Ethics.

## **Item 12. Brokerage Practices**

CMS generally recommends that clients utilize the brokerage and clearing services of TD AMERITRADE Institutional, a division of TD AMERITRADE, Inc. ("TD Ameritrade") for investment management accounts. CMS participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisers services which include custody of securities, trade execution, clearance and settlement of transactions. CMS receives some benefits from TD Ameritrade through its participation in the program.

Factors which CMS considers in recommending TD Ameritrade or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. TD Ameritrade enables CMS to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by TD Ameritrade may be higher or lower than those charged by other Financial Institutions.

The commissions paid by CMS' clients comply with the Firm's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where CMS determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the value of

research provided, execution capability, commission rates and responsiveness. CMS seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

CMS periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

The client may direct CMS in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution and the Firm will not seek better execution services or prices from other Financial Institutions or be able to “batch” client transactions for execution through other Financial Institutions with orders for other accounts managed by CMS (as described below). As a result, the client may pay higher transaction costs (e.g., brokerage commissions or spreads) or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, CMS may decline a client’s request to direct brokerage if, in the Firm’s sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

Transactions for each client generally will be effected independently, unless CMS decides to purchase or sell the same securities for several clients at approximately the same time. CMS may (but is not obligated to) combine or “batch” such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among CMS’ clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among CMS’ clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that CMS determines to aggregate client orders for the purchase or sale of securities, including securities in which CMS’ *Supervised Persons* may invest, the Firm does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. CMS does not receive any additional compensation or remuneration as a result of the aggregation. In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares will be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when such account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares will be reallocated to other accounts (this will be due to unforeseen changes in an account’s assets after an order is placed); (iv) with respect to sale allocations, allocations will be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, CMS may exclude the account(s) from the allocation; the transactions will be executed on a pro rata basis among

the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares will be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist CMS in its investment decision-making process. Such research generally will be used to service all of the Firm's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because CMS does not have to produce or pay for the products or services.

### **Commissions or Sales Charges for Recommendations of Securities**

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As discussed above, certain Supervised Persons in their respective individual capacities, are registered representatives of APWC. These Supervised Persons are subject to FINRA Rule 3040 which restricts registered representatives from conducting securities transactions away from their broker-dealer unless APWC provides written consent. Therefore, clients are advised that certain Supervised Persons may be restricted to conducting securities transactions through APWC if they have not secured written consent from APWC to execute securities transactions through a different broker-dealer. Absent such written consent or separation from APWC, these Supervised Persons are prohibited from executing securities transactions through any broker-dealer other than APWC under APWC's internal supervisory policies. CMS is cognizant of its duty to obtain best execution and has implemented policies and procedures reasonably designed in such pursuit.

### **Software and Support Provided by Financial Institutions**

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CMS may receive from TD Ameritrade, without cost to CMS, computer software and related systems support, which allow CMS to better monitor client accounts maintained at TD Ameritrade. CMS may receive the software and related support without cost because CMS renders investment management services to clients that maintain assets at TD Ameritrade. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit CMS, but not its clients directly. In fulfilling its duties to its clients, CMS endeavors at all times to put the interests of its clients first. Clients should be aware, however, that CMS' receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits provide an incentive for CMS to choose one broker-dealer over another broker-dealer that does not furnish similar software, systems support or services.

There is no direct link between CMS' participation in TD Ameritrade's institutional customer program and the investment advice it gives to its clients, although CMS receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. Additionally, CMS may receive the following benefits from TD Ameritrade through its registered investment adviser

division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Adviser participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information. The Firm also has the ability deduct advisory fees directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to the Firm by third party vendors. TD Ameritrade may fund business consulting and professional services received by CMS' related persons.

Some of the products and services made available by TD Ameritrade through the program may benefit CMS but not its clients. These products or services may assist CMS in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help CMS manage and further develop its business enterprise. The benefits received by CMS' participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

### **Brokerage for Client Referrals**

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CMS participates in the TD Ameritrade AdvisorDirect program. More information regarding this program is found in Item 14 below.

## **Item 13. Review of Accounts**

### **Account Reviews**

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For those clients to whom CMS provides investment management services, CMS monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom CMS provides financial planning and/or consulting services, reviews are conducted on an "as needed" basis. Such reviews are conducted by a member of CMS' Investment Committee. All investment advisory clients are encouraged to discuss their needs, goals and objectives with CMS and to keep CMS informed of any changes thereto. The Firm contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### **Account Statements and Reports**

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. On a quarterly basis or as otherwise requested, clients may also receive written or electronic reports from CMS and/or an outside service

provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with those they receive from CMS or an outside service provider.

Those clients to whom CMS provides financial planning and/or consulting services will receive reports from CMS summarizing its analysis and conclusions as requested by the client or as otherwise agreed to in writing by CMS.

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

### **Client Referrals**

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The Firm currently does not compensate third parties for client referrals. However, if a client is introduced to CMS by either an unaffiliated or an affiliated solicitor, CMS may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from CMS' investment management fee and does not result in any additional charge to the client. If the client is introduced to CMS by an unaffiliated solicitor, the solicitor provides the client with a copy of CMS' written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of CMS discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of CMS' written disclosure brochure at the time of the solicitation.

### **TD Ameritrade AdvisorDirect**

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CMS has entered into an agreement with TD Ameritrade to participate in TD AMERITRADE AdvisorDirect ("AdvisorDirect"), a referral service designed to match investors with an independent investment advisor in their area. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, the Firm may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with Advisor and there is no employee or agency relationship between them. CMS does not compensate or receive any compensation from TD Ameritrade for participating in AdvisorDirect. CMS has agreed not to charge clients introduced through AdvisorDirect fees or costs greater than the fees or costs CMS charges its advisory clients who were not introduced through AdvisorDirect and who have similar portfolios under management with CMS. CMS' participation in AdvisorDirect raises conflicts of interest. Although not required by AdvisorDirect, CMS may be more likely to execute transactions for their clients referred through AdvisorDirect with TD Ameritrade, consistent with CMS' duty of best execution as further discussed above.

CMS' participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody assets at TD

Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, CMS has an incentive to recommend to clients that the assets under management by the Firm be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, CMS has agreed not to solicit clients, referred to it through AdvisorDirect, to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. CMS' participation in AdvisorDirect does not diminish its duty to seek best execution.

TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management or financial planning services to independent investment advisers. TD Ameritrade does not supervise CMS and has no responsibility for its management of client portfolios, advice or services. The Firm pays TD Ameritrade an on-going fee for each successful client referral, usually a percentage (not to exceed 25%) of the advisory fee ("Solicitation Fee"). CMS will also pay TD Ameritrade the Solicitation Fee on any advisory fees received from any of a referred client's family members (including a spouse, child or any other immediate family member who resides with the referred client) and who hired CMS on the recommendation of such referral. The Firm will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

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**Other Economic Benefits**

In addition, CMS is required to disclose any relationship or arrangement where it receives an economic benefit from a Third Party (non-client) for providing advisory services. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

**Item 15. Custody**

CMS' Agreement and/or the separate agreement with any Financial Institution may authorize CMS through such Financial Institution to debit the client's account for the amount of CMS' fee and to directly remit that management fee to CMS in accordance with applicable custody rules.

The Financial Institutions recommended by CMS have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to CMS. In addition, as discussed in Item 13, CMS also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from CMS.

**Item 16. Investment Discretion**

In most circumstances, CMS is given the authority to exercise discretion on behalf of clients. CMS is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. CMS is given this authority through a power-of-attorney included in the agreement between CMS and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). CMS takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The Third Party Managers to be hired or fired.

**Item 17. Voting Client Securities**

CMS does not accept the authority to vote a client's securities (i.e., proxies) on their behalf. Clients receive proxies directly from the Financial Institutions where their assets are custodied and may contact the Firm at the contact information on the cover of this brochure with questions about any such issuer solicitations.

**Item 18. Financial Information**

CMS is not required to disclose any financial information pursuant to this Item due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.

## **CAPITAL MANAGEMENT SERVICES, INC.**

*a Registered Investment Advise*

Prepared by:



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