



## Capital Advantage, Inc.

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March 31, 2021

### **Item 1 – Cover Page**

This Brochure provides information about the qualifications and business practices of Capital Advantage, Inc. If you have any questions about the contents of this Brochure, please contact us at 925.299.1500 or [info@capitaladvantage.com](mailto:info@capitaladvantage.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.

Capital Advantage, Inc. is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

## **Item 2 – Material Changes**

Since the last annual brochure update submitted on March 30, 2020, this brochure has been amended as follows:

- At Item 15 to revise disclosure language regarding Custody practices
- At Item 18 to disclose that the firm does not solicit or require prepayment of fees of \$1,200 or more, six months or more in advance

Capital Advantage, Inc. encourages all current and prospective clients to review this brochure in its entirety.

We will provide clients with a new Brochure as necessary based on changes or new information, at any time, without charge.

Our Brochure may be requested by contacting Dawnalizabeth Henke, Chief Compliance Officer, at 925.299.1500 or [info@capitaladvantage.com](mailto:info@capitaladvantage.com). Our Brochure is also available on our web site [www.capitaladvantage.com](http://www.capitaladvantage.com), free of charge.

Additional information about Capital Advantage, Inc. is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Capital Advantage, Inc. who are registered as investment adviser representatives of Capital Advantage, Inc.

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## **Item 4 – Advisory Business**

Capital Advantage, Inc., a California corporation, is a SEC registered investment adviser, initially registered in September 1998. Capital Advantage, Inc. offers a combination of advisory services, broadly described as Investment Management Services and Financial Planning Services, as more fully described below.

Capital Advantage, Inc.'s Founder, President, and principal owner is John S. Hayman.

Capital Advantage, Inc. offers two types of investment advisory services:

### **(a) Investment Management Services**

Capital Advantage, Inc. provides discretionary management of client assets. Through personal discussions with the client, we establish the client's financial goals and objectives based on their unique circumstances. We help the client develop their personal investment strategy based upon their financial goals, investment objectives and risk tolerance, and manage the portfolio based on the agreed upon strategy. When we select the investments for the client's portfolio, we are guided by the client's specifications, which may include capital appreciation, growth, income, growth and income or some other variation.

Clients may impose reasonable restrictions on investing in certain securities or types of securities. Capital Advantage, Inc. requires that such restrictions be included in a written (hard copy or electronic) authority statement (generally as part of the client's Investment Advisory Agreement with us and as amended from time to time). Clients may update these restrictions as desired by submitting a request in writing (hard copy or electronic).

Item 5, "Fees and Compensation" provides additional information regarding how and when Capital Advantage, Inc. charges management fees.

### **(b) Financial Planning Services**

Capital Advantage, Inc. may also provide clients with financial planning advice for no additional fee if requested and engaged to do so. We gather required information through in-depth personal interviews with the client. We may ask the client about their current financial status, future goals, and attitudes towards risk. We carefully review any appropriate documentation that clients provide. In general, financial planning discussions may address any or all of the following areas that may be of concern to the client:

1. Personal: Budgeting, personal liability, estate information, marital status changes, and financial goals.
2. Education: Education IRAs, financial aid, state savings plans, grants and general assistance in preparing to meet the client's dependents continuing educational needs.
3. Investment Tax and Cash Flow: Income tax planning and spending analysis. For example, we may illustrate the impact of various investments on the client's current income tax and future tax liability.
4. Death and Disability: Cash needs at death, income needs of surviving dependents, inheritance and estate planning, and disability income analysis.
5. Retirement: Analysis of current strategies and investment plans to help the client achieve their retirement goals.
6. Investment: Analysis, allocation and planning of investment selections, and their effect on the client's portfolio.

Clients may terminate the Financial Planning & Consulting Agreement at any time.

If clients choose to implement the recommendations discussed in the financial planning consultation, we highly recommend that they also work closely with their attorney, accountant, and/or insurance agent. Implementation of financial planning recommendations is entirely at the client's discretion. We may recommend service providers to help the client implement our recommendations. Clients are under no obligation to engage the services of any recommended professional. If the client engages any professional (i.e. attorney, accountant, insurance agent, etc.), recommended or otherwise, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from the engaged professional. At all times, the engaged licensed professional(s), and not Capital Advantage, Inc., shall be responsible for the quality and competency of the services provided. It remains the client's responsibility to notify Capital Advantage, Inc. promptly if there is ever any change in

their financial situation or investment objectives so that Capital Advantage, Inc. can review, and if necessary, revise its previous recommendations or services.

Neither Capital Advantage, Inc., nor any of its representatives, serves as an attorney, accountant, or insurance agent, and no portion of Capital Advantage, Inc.'s services should be viewed as legal or accounting services. Capital Advantage, Inc. financial planning recommendations are not limited to any specific product or service offered by a broker dealer or insurance company. All recommendations are of a generic nature.

#### **(c) Total Client Assets under Management**

As of March 31, 2021, the calculated amount of client assets managed by Capital Advantage, Inc. was approximately \$891,590,122 on a discretionary basis. Capital Advantage, Inc. does not manage assets on a non-discretionary basis.

#### **(d) Miscellaneous**

**Wrap Fees.** Capital Advantage, Inc. does not participate in wrap fee programs.

**Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Capital Advantage, Inc.) will be profitable or equal any specific performance level(s).

**Retirement Plan Rollovers – No Obligation / Conflict of Interest.** A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If Capital Advantage, Inc. recommends that a client roll over their retirement plan assets into an account to be managed by Capital Advantage, Inc., such a recommendation creates a conflict of interest if Capital Advantage, Inc. will earn a new (or increase its current) advisory fee as a result of the rollover. No client is under any obligation to roll over retirement plan assets to an account managed by Capital Advantage, Inc.

**Cash Positions.** Depending upon perceived or anticipated market conditions/events (there being no guarantee that such anticipated market conditions/events will occur), Capital Advantage, Inc. may maintain cash and cash equivalent positions (such as money market funds, etc.) for defensive, liquidity, or other purposes. Unless otherwise agreed in writing, all such cash positions are included as part of assets under management for purposes of calculating Capital Advantage, Inc.'s advisory fee.

**Use of Mutual Funds.** Most mutual funds and exchange-traded funds are available directly to the public. Thus, a prospective client can obtain many of the funds that may be utilized by Capital Advantage, Inc. independent of engaging the firm as an investment advisor. However, if a prospective client determines to do so, he/she will not receive Capital Advantage, Inc.'s initial and ongoing investment advisory services. Please Note: In addition to our investment advisory fee described below, and transaction and/or custodial fees discussed below, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

**Portfolio Activity.** Capital Advantage, Inc. has a fiduciary duty to provide services consistent with the client's best interest. As part of its investment advisory services, we will review client portfolios on an ongoing basis to determine if any changes are necessary based upon various factors, including but not limited to investment performance, fund manager tenure, style drift, account additions/withdrawals, the client's financial circumstances, and changes in the client's investment objectives. Based upon these and other factors, there may be extended periods of time when Capital Advantage, Inc. determines that changes to a client's portfolio are neither necessary nor prudent. Clients nonetheless remain subject to the fees described in Item 5 below during periods of account inactivity. Notwithstanding, there can be no assurance that investment decisions made by Capital Advantage, Inc. will be profitable or equal any specific performance level(s).

**Client Obligations.** In performing its services, Capital Advantage, Inc. is not required to verify any information received from the client or from the client's other professionals. It remains the client's responsibility to notify Capital Advantage, Inc. promptly if there is ever any change in their financial situation or investment objectives so that Capital Advantage, Inc. can review, and if necessary, revise its previous recommendations or services.

**Account Aggregation Reporting.** Capital Advantage may also provide periodic comprehensive reporting services that can incorporate all of the client's investment assets, including those investment assets that are not part of the assets managed by Capital Advantage (the "Excluded Assets"). The client and/or his/her/its other advisors that maintain trading authority, and not Capital Advantage, shall be exclusively responsible for the investment performance of the Excluded Assets. Unless otherwise specifically agreed to, in writing, Capital Advantage's service relative to the Excluded Assets is limited to reporting only. The sole exception to the above shall be if Capital Advantage is specifically engaged to monitor and/or allocate the assets within the client's 401(k) account maintained away at the custodian directed by the client's employer. As such, except with respect to the client's 401(k) account (if applicable), Capital Advantage does not maintain any trading authority for the Excluded Assets. Rather, the client and/or the client's designated other investment professional(s) maintain supervision, monitoring and trading authority for the Excluded Assets. If Capital Advantage is asked to make a recommendation as to any Excluded Assets, the client is under absolutely no obligation to accept the recommendation, and Capital Advantage shall not be responsible for any implementation error (timing, trading, etc.) relative to the Excluded Assets. In the event the client desires that Capital Advantage provide investment management services for the Excluded Assets, the client may engage Capital Advantage to do so pursuant to the terms and conditions of the Investment Advisory Agreement between Capital Advantage and the client.

## **Item 5 – Fees and Compensation**

All fees are subject to negotiation.

The specific manner in which fees are charged by Capital Advantage, Inc. is established in a written agreement between each client and Capital Advantage, Inc. Capital Advantage, Inc. offers investment advisory services for a percentage of assets under management.

Capital Advantage, Inc. generally bills its fees within one month of the end of each calendar quarter, payable in arrears. Unless otherwise arranged, we directly debit fees from client accounts. Management fees are based on the total value of the client's accounts, including cash and accrued interest, and are prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Accounts initiated during a calendar quarter will be charged a prorated fee, and for accounts that are terminated, the fee will be prorated to the date of termination.

Our fees for investment management services are generally assessed in accordance with the following fee schedule:

- 1.00% on the first \$2,000,000 Assets under Management;
- 0.90% on the next \$2,000,001 - \$3,000,000 Assets under Management;
- 0.85% on the next \$3,000,001 - \$4,000,000 Assets under Management;
- 0.75% on the next \$4,000,001 - \$5,000,000 Assets under Management;
- 0.70% on the next \$5,000,001 - \$10,000,000 Assets under Management;
- 0.50% on the balance over \$10,000,000 Assets under Management

Capital Advantage may charge a lesser investment advisory fee, waive or modify its asset minimum or its annual minimum fee, charge a flat fee, or waive its fee entirely based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, complexity of the engagement, grandfathered fee schedules, Capital Advantage employees and family members, courtesy accounts, competition, negotiations with client, etc.). **Please Note:** As result of the above, similarly situated clients could pay different fees. In addition, similar advisory services may be available from other investment advisers for similar or lower fees. **Please Also Note:** In the event that a client is accepted with less than \$450,000 under management, and is subject to the minimum quarterly fee described below, the client will pay a higher percentage fee than that set forth in the above fee schedule. **ANY QUESTIONS:** Capital Advantage's Chief Compliance Officer, Dawnalizabeth Henke, remains available to address any questions that a client or prospective client may have regarding advisory fees.

Capital Advantage, Inc. has a minimum account fee for investment management services of \$1,125 per quarter. The minimum fee may be waived. Criteria commonly used to adjust the minimum fee are:

1. Date of acquisition
2. Additional services requested

3. Account investment objective
4. Prospective additional business
5. Amount of assets under management
6. Legacy fee arrangements

Capital Advantage, Inc.'s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses, which clients remain responsible for paying. Clients may also incur certain charges imposed by custodians, brokers, third party investment advisers and other third parties such as custodial fees, 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. These fees and expenses are in addition to Capital Advantage, Inc.'s fee. Capital Advantage, Inc. and its supervised persons do not receive any portion of these fees and expenses. Nor does it receive compensation from the sale of any securities or investment products.

Capital Advantage, Inc. implements the client's investment strategy by investing in various types of securities, including mutual funds and exchange traded funds. Mutual funds and exchange-traded fund investors incur additional fees and expenses that are borne by each shareholder (i.e., management fees) and are disclosed in each fund's prospectus. Clients could invest in a mutual fund or exchange-traded fund directly, without the services of Capital Advantage, Inc. In that case, clients would not receive the services provided by Capital Advantage, Inc., which are designed, among other things, to assist the client in determining which securities are most appropriate for their individual financial situation and investment strategy.

Capital Advantage, Inc. has set its rates to take into consideration these additional charges - if any. However, Capital Advantage, Inc. recommends that clients review the fees charged by the funds, custodians and broker dealers and the fees charged by Capital Advantage, Inc. to fully understand the total amount of fees to be paid by the client and to evaluate the advisory services being provided.

Item 12, "Brokerage Practices" further describes the factors that Capital Advantage, Inc. considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (i.e. commissions).

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

Registered investment advisers are required to disclose all material facts regarding performance-based fees and the simultaneous management of accounts that may have alternative fee arrangements. Capital Advantage, Inc. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). Furthermore, we have procedures designed and implemented to ensure that all of our clients are treated fairly and equally, and to help prevent conflicts from influencing the allocation of investment opportunities among our clients.

## **Item 7 – Types of Clients**

Capital Advantage, Inc. offers its advisory services to individuals, high net worth individuals, trustees, pension and profit-sharing plans, charitable organizations and corporations or other business entities.

Participation in advisory services requires a minimum portfolio size of \$500,000. The minimum portfolio size of \$500,000 may be waived for our clients based on individual client circumstances. Additionally, certain related accounts may be aggregated for the purpose of achieving the minimum account size.

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

Capital Advantage, Inc. reviews several indicators to ascertain when and if these indicators support the purchase or sale of specific types of investments for our client portfolios. Some of the indicators that we may use in our decision-making process include investor sentiment, money supply, consumer confidence, consumption and distribution, inventories and orders, housing and inflation, employment, yield curve/ interest rates, monetary policy, and political factors, among others.

We use a variety of methods to evaluate the overall financial market, market sectors, mutual funds and other various types of securities. Depending upon the type of investment, we will use a combination of fundamental and technical analysis.

Fundamental analysis involves analyzing real data, including overall economic and company-specific information available to determine the value of a particular investment. Technical analysis involves analyzing statistics provided by market activity such as past prices and volume to identify patterns in an effort to predict future activity. In performing these analyses, we complete our own internal research and analysis, consult company annual reports and other regulatory filings, review financial newspapers and periodicals, as well as receive research and analysis from third parties such as Charles Schwab & Co., Inc. ("Schwab"), Morningstar and Value Line.

Capital Advantage, Inc. invests in various asset classes, including mutual funds, exchange traded funds, individual equities, individual corporate and municipal bonds, CDs and other investment products, if appropriate. The client will retain ownership of all securities. Capital Advantage, Inc. allocates assets among various investments taking into account the client's overall investment strategy.

All securities investments carry risk, including the risk that an investor may lose a part or all of his or her initial investment. Risk refers to the uncertainty that the actual return the investor realizes could differ from the expected return. Risks may be systematic, referring to factors that affect the returns on all comparable investments and that affect the market as a whole. Systematic risks include market risk, interest rate risk, reinvestment rate risk, purchasing power risk and exchange rate risk. Unsystematic risks depend on factors that are unique to the specific investment security. These risks include business risk and financial risk.

Some of the general risks associated with parts of our investment strategy include:

1. **Short-Term Purchases:** On occasion, and generally only for tax management purposes, we may determine to buy or sell securities in a client account and hold them for less than one year. Some of the risks associated with short-term trading that could affect investment performance are increased commissions and transaction costs to the account and increased tax obligations on the gains in a security's value.
2. **Fixed Income and Bond Pricing:** Fixed income investing involves credit risk, interest rate risk (when interest rates rise, bond/fund prices generally fall), and inflation or reinvestment risks. Below-investment-grade ("junk") bonds are more at risk of default than other bond investments and are subject to liquidity risk. The price of bonds depends in part on the current rate of interest. Rising interest rates decrease the current price of bonds because current purchasers require a competitive yield. As such, decreasing interest rates increase the current value of bonds with associated decrease in bond yield. We may decide to exchange to a lower or higher duration bond or to another asset class due to interest rate risk that could affect investment performance.
3. **Inflation:** Inflation is the loss of purchasing power through a general rise in prices. If an investment portfolio is designed for current income with a real rate of return of 4% and inflation were to rise to 5% or higher, the account would result in a loss of purchasing power and create a negative real rate of return.
4. **Price Fluctuation:** Security prices do fluctuate (except for cash or cash equivalents) and the client must accept the risk associated with fluctuations or change to a more appropriate investment objective in alignment with the client's risk tolerance. Investing in securities involves risk of loss that the client should be prepared to bear.
5. **Reinvestment of Dividends:** An investor can choose to reinvest interest, dividends and capital gains to accumulate wealth. This is an appropriate strategy for a portfolio designed for capital growth. However, the reinvested earnings could result in a lower or a higher rate than was initially earned.
6. **Mutual Funds with Foreign Asset Holdings:** Any investments in mutual funds that make foreign investments entail special risks (such as currency fluctuations and political factors) and may have higher expenses and volatility. Investments in emerging and developing markets may be especially volatile. The client will bear more risk and may earn a substantially higher return or a substantially lower return.

Should clients choose to follow high-risk strategies, they may incur significant losses, including losses that exceed the amount of initial investment. Capital Advantage, Inc. strongly recommends that clients diversify their investments and not commit all of their assets to high risk investment strategies.



## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the client's evaluation of Capital Advantage, Inc. or the integrity of Capital Advantage, Inc.'s management. Capital Advantage, Inc. has no information applicable to this Item, as no disciplinary history exists for Capital Advantage, Inc. and/or its associated persons.

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

Registered investment advisers are required to disclose all material facts regarding other financial industry activities and affiliations that could be material to the client's evaluation of Capital Advantage, Inc. and Capital Advantage, Inc.'s management.

Capital Advantage, Inc. is not involved in any business activities that could be material to the client's evaluation of Capital Advantage, Inc. and Capital Advantage, Inc.'s management.

## **Item 11 – Code of Ethics**

Capital Advantage, Inc. has adopted a Code of Ethics for all its supervised persons describing its high standard of business conduct and fiduciary duty to its clients and compliance with applicable securities laws. Our Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Capital Advantage, Inc. must acknowledge the terms of the Code of Ethics annually, or as amended.

Capital Advantage, Inc. anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Capital Advantage, Inc. has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Capital Advantage, Inc., its affiliates and/or clients, directly or indirectly, have a position of interest. Capital Advantage, Inc.'s employees and persons associated with Capital Advantage, Inc. are required to follow our Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Capital Advantage, Inc. and its affiliates may trade for their own accounts in securities that are recommended to or purchased for Capital Advantage, Inc.'s clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Capital Advantage, Inc. will not interfere with (i) making decisions in the best interest of clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Capital Advantage, Inc.'s clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Capital Advantage, Inc. and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Capital Advantage, Inc.'s obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Capital Advantage, Inc. will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

Capital Advantage, Inc.'s clients or prospective clients may request a copy of our Code of Ethics by contacting Dawnalizabeth Henke, Chief Compliance Officer, at 925.299.1500 or [info@capitaladvantage.com](mailto:info@capitaladvantage.com).

It is Capital Advantage, Inc.'s policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Capital Advantage, Inc. will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from

or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

## **Item 12 – Brokerage Practices**

In the event that the client requests that Capital Advantage, Inc. recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Capital Advantage, Inc. to use a specific broker-dealer/custodian), Capital Advantage, Inc. generally recommends that accounts be maintained at Schwab or Fidelity. Prior to engaging Capital Advantage, Inc. to provide investment management services, the client will be required to enter into a formal Investment Advisory Agreement with Capital Advantage, Inc. setting forth the terms and conditions under which Capital Advantage, Inc. shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Capital Advantage, Inc. considers in recommending Schwab or Fidelity (or any other broker-dealer/custodian to clients) include historical relationship with Capital Advantage, Inc., financial strength, reputation, execution capabilities, pricing, research, and service. In addition, Capital Advantage, Inc. maintains a referral relationship with Schwab, discussed below in Item 14. Although the commissions and transaction fees paid by Capital Advantage, Inc.'s clients comply with Capital Advantage, Inc.'s duty to seek best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to affect the same transaction. In these instances, Capital Advantage, Inc. generally will be required to determine, in good faith, that the additional charge is 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 broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Capital Advantage, Inc. will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are in addition to Capital Advantage, Inc.'s investment management fee. Capital Advantage, Inc.'s best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

**Research and Additional Benefits.** Although not a material consideration when determining whether to recommend that a client use the services of a particular broker-dealer/custodian, Capital Advantage, Inc. receives from Schwab and Fidelity (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products that assist Capital Advantage, Inc. to better monitor and service client accounts at these institutions. Capital Advantage, Inc. also receives investment-related research, pricing information, market data, software and other technology that provide access to client account data. It can also take advantage of compliance and practice management-related publications, discounted or free consulting services, discounted or free attendance at conferences, meetings, and other educational and social events. From time to time, Capital Advantage, Inc. may also be offered marketing support, computer hardware or software, and other products that further its investment advisory business operations.

Capital Advantage, Inc.'s clients do not pay more for investment transactions effected or assets maintained at Schwab or Fidelity because of this arrangement. There is no corresponding commitment made by Capital Advantage, Inc. to Schwab or Fidelity or any other any entity to invest any specific amount or percentage of client assets in any specific securities or other investment products as result of this arrangement.

**Schwab Referrals.** Capital Advantage, Inc. receives client referrals from Schwab through its participation in Schwab Advisor Network™ ("the Service"), designed to help investors find an independent investment adviser. Schwab is a broker-dealer independent of and unaffiliated with Capital Advantage, Inc. Schwab does not supervise Capital Advantage, Inc. and has no responsibility for Capital Advantage, Inc.'s management of clients' portfolios or Capital Advantage, Inc.'s other advice or services. Capital Advantage, Inc. pays Schwab fees to receive client referrals through the Service. Capital Advantage, Inc.'s participation in the Service raises conflicts of interest described below.

Capital Advantage, Inc. pays Schwab a "Participation Fee" on all referred clients' accounts maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee

paid by Capital Advantage, Inc. is a percentage of the fees owed by the client to Capital Advantage, Inc. or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. Capital Advantage pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to Capital Advantage, Inc. quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Capital Advantage, Inc. and not by the client. Capital Advantage, Inc. has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Capital Advantage, Inc. charges clients with similar portfolios who were not referred through the Service.

Capital Advantage, Inc. generally pays Schwab a "Non-Schwab Custody Fee" if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab, unless the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed in custody other than at Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Capital Advantage, Inc. generally would pay in a single year. Thus, Capital Advantage, Inc. will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Capital Advantage, Inc.'s clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Capital Advantage, Inc. will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit Capital Advantage, Inc.'s fees directly from the accounts.

For accounts of Capital Advantage, Inc.'s clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from Capital Advantage, Inc.'s clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades to be executed through Schwab rather than another broker-dealer. Capital Advantage, Inc. nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Capital Advantage, Inc.'s other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

**Directed Brokerage.** Capital Advantage, Inc. does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Capital Advantage, Inc. will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Capital Advantage, Inc. As a result, clients may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Please Note: In the event that the client directs Capital Advantage, Inc. to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Capital Advantage, Inc. Higher transaction costs adversely impact account performance. Please Also Note: Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

**Order Aggregation.** To the extent that Capital Advantage, Inc. provides investment management services to its clients, the transactions for each client account may be effected independently, unless Capital Advantage, Inc. decides to purchase or sell the same securities for several clients at approximately the same time. Capital Advantage, Inc. may combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Capital Advantage, Inc.'s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Capital Advantage, Inc. shall not receive any additional compensation or remuneration as a result of such aggregation.

**Capital Advantage, Inc.'s Chief Compliance Officer, Dawnalizabeth Henke, remains available to address any questions that a client or prospective client may have regarding the above arrangement(s) and the conflicts of interest presented by such arrangement(s).**

### **Item 13 – Review of Accounts**

#### **(a) Investment Management Services:**

Client accounts are reviewed by one or more of the investment adviser representatives employed by Capital Advantage, Inc., including John Hayman (President), Donna Zinman (Senior Financial Advisor), Ian Castille (Senior Financial Advisor), Benjamin Agron (Financial Advisor), Colin Taylor (Director of Investment Management), Catherine Norris (Senior Service Advisor), Eugenia Lathan-Churchill (Manager of Client Services), Jeff Giguere (Financial Advisor) and/or Dawnalizabeth Henke (Chief Compliance & Operating Officer). While the underlying securities within client accounts are continuously monitored, each account is reviewed at least once annually. More frequent reviews of the account may be triggered by material changes in variables such as the client's individual circumstances, deposit and withdrawal activity, market highs and lows, investment objective changes, economic factors, interest rates, political changes, and other variables.

#### **(b) Financial Planning Services:**

Financial plans, updates and special analysis work is prepared or reviewed by one or more of the investment adviser representatives employed by Capital Advantage, Inc. While reviews may occur at different stages depending on the nature and terms of the specific engagement of Capital Advantage, Inc., financial plans are typically updated as fundamental factors arise and at the client's complete discretion.

#### **(c) Reports:**

In addition to the monthly statements and confirmations of transactions that the client receives from their custodian, Capital Advantage, Inc. will provide written and/or electronic quarterly reports summarizing account performance, balances and holdings. We urge clients to compare the written reports prepared and provided by Capital Advantage, Inc. to those reports that they receive directly from their custodian. In addition, if the client elected to have their advisory fees debited directly from their account, we urge the client to compare and review the calculation and fee paid to Capital Advantage, Inc. against valuations included in their custodial statements. Item 15 - Custody - further describes additional types and frequency of reports available.

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

Capital Advantage, Inc. receives economic benefits from Schwab and Fidelity. Our firm, without cost (and/or at a discount), may also receive support services and products from Schwab and Fidelity. Item 12, "Brokerage Practices" further describes the support services and products that Capital Advantage, Inc. receives from Schwab and Fidelity.

If a client is introduced to Capital Advantage, Inc. by either an unaffiliated or an affiliated solicitor, Capital Advantage, Inc. will pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940. Capital Advantage, Inc. pays referral fees solely from its investment management fee and does not impose any additional charge on the client. If the client is introduced to Capital Advantage, Inc. by an unaffiliated solicitor, the solicitor, will disclose the nature their relationship, and provide each prospective client with the most current copy of this Brochure and a separate written disclosure statement disclosing the terms of the arrangement with Capital Advantage, Inc., including the compensation to be paid by Capital Advantage, Inc.

**Capital Advantage, Inc.'s Chief Compliance Officer, Dawnalizabeth Henke, remains available to address any questions that a client or prospective client may have regarding the above arrangement and the conflict of interest these arrangements create.**

## **Item 15 – Custody**

Under government regulations, we are deemed to have custody of client assets if the client authorizes us to instruct their custodian to deduct our advisory fees directly from their account. The client's custodian maintains actual custody of the assets. The client will receive account statements from the custodian that holds and maintains their investment assets at least quarterly. These statements will be sent to the email address or postal mailing address that the client has provided to the custodian. Capital Advantage, Inc. urges clients to carefully review such statements and compare such official custodial records to the account statements that we provide to them, including the calculation of our advisory fee if directly debited, as discussed in Item 13 above. Capital Advantage, Inc.'s statements may vary from custodian statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities or dates of recognition of dividend and/or interest payments.

Please Note: Custody Situations: Capital Advantage, Inc. engages in other practices and/or services on behalf of its clients that require disclosure at ADV Part 1, Item 9, and which practices and/or services are subject to an annual surprise CPA examination in accordance with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940.

## **Item 16 – Investment Discretion**

Capital Advantage, Inc. typically receives discretionary authority from clients at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objective for the particular client account. When selecting securities and determining amounts, Capital Advantage, Inc. observes the investment objectives, limitations and restrictions of the clients for which we advise. Prior to exercising discretionary authority for client accounts, clients are required to execute a written limited power of attorney authorizing the broker dealer/custodian to execute trades initiated by Capital Advantage, Inc. For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Clients may impose reasonable restrictions on investing in certain securities or types of securities. Capital Advantage, Inc. requires that such restrictions be included in a written (hard copy or electronic) authority statement (generally as part of the client's Investment Advisory Agreement with us and as amended from time to time). Clients may update these restrictions as desired by submitting a request in writing (hard copy or electronic).

## **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, Capital Advantage, Inc. does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for all securities maintained in their portfolios. Capital Advantage, Inc. may, however, provide advice to clients regarding their voting of proxies.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide clients with certain financial information or disclosures about Capital Advantage, Inc.'s financial condition. Capital Advantage, Inc. has no financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients and has not been the subject of a bankruptcy proceeding. In addition, Capital Advantage, Inc. does not solicit or require prepayment of fees of \$1,200 or more, six months or more in advance.

**QUESTIONS: Capital Advantage, Inc.'s Chief Compliance Officer, Dawnalizabeth Henke, remains available to address any questions regarding this Part 2A.**