



**Probabilities Fund Management, LLC**

CRD# 144313

Part 2A Form ADV

200 Mamaroneck Ave, Suite 300, White Plains, NY 10601

Contact person:

Mary Gray

[www.probabilitiesfundmanagement.com](http://www.probabilitiesfundmanagement.com)

(800) 519 0438

March 29, 2021

Probabilities Fund Management, LLC, is a registered investment adviser. The use of the term registered investment adviser does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Probabilities Fund Management, LLC. If you have any questions about the contents of this brochure, please contact us at (800) 519 0438 and/or [mgray@probabilitiesfund.com](mailto:mgray@probabilitiesfund.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.

Additional information about Probabilities Fund Management, LLC is also available on the SEC's website at <http://www.adviserinfo.sec.gov>.

## **Material Changes**

There were no material changes since the last amendment.

## Table of Contents

Advisory Business .....	3
Fees and Compensation .....	4
Performance-Based Fees and Side-By-Side Management .....	5
Types of Clients .....	5
Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Disciplinary Information .....	8
Other Financial Industry Activities and Affiliations .....	8
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	9
Brokerage Practices .....	10
Review of Accounts .....	12
Client Referrals and Other Compensation .....	12
Custody .....	12
Investment Discretion .....	12
Voting Client Securities .....	13
Financial Information .....	13

## ADVISORY BUSINESS

### Advisory Firm Description

Probabilities Fund Management, LLC ("PFM" or the "Firm") has been in business since October 2007. The principal owner is Mr. Joseph B. Childrey. Minority interests less than 25% each are owned by Mary Gray, Allen Shepard, Reed Foster and Rob Ausdal.

### Types of Services

PFM provides investment management and Advisory services to the Probabilities Fund, ("the Fund"); the Probabilities VIT Fund, ("the VIT Fund") (together, "the Funds"); the Probabilities Portfolio as a Third Party Investment Adviser ("TPIA") for Nationwide and for Security Benefit; and as a SMA manager participating on other SMA platforms. The firm also serves individual clients ("Private Client accounts").

The Fund offers Class "A", "C" and "I" Shares on a continuous basis. The Fund is registered under the Investment Company Act of 1940. *This is not a public offer of the Fund.*

The VIT Fund is offered as an investment option within Variable Annuity contracts offered by Nationwide and Security Benefit Life Insurance Co. *This is not a public offer of the VIT Fund.*

Through our TPIA program, we manage assets as a third-party money manager or subadvisor for clients of Advisers at Nationwide and Security Benefit.

Through its Separately Managed Account program, PFM offers substantially similar strategies to SMA platforms that implement trades in customer accounts based on trade records submitted to the platforms by PFM and/or trades submitted directly by PFM.

PFM also offers Private Client Account and Asset Allocation Consult Account services alongside the Fund.

### Client Assets Under Management

As of December 31, 2020, PFM managed \$57,261,011 on a discretionary basis. PFM does not manage assets on a non-discretionary basis.

## FEES AND COMPENSATION

### Management Fee

Product / Fund Share Class	Management Fee
Fund -- Class A, C, and I	One twelfth of 1.35% of net assets accrued daily and paid monthly in arrears (1.35% annualized).
VIT Fund	One twelfth of 1.35% of net assets accrued daily and paid monthly in arrears (1.35% annualized).
Separately Managed Accounts participating in substantially similar strategy	One quarter of 1.35% of net assets paid quarterly in arrears (1.35% annualized) Negotiable for accounts over \$5 million.
Legacy accounts in strategies not substantially similar to Fund strategies	One quarter of 0.40% on accounts greater than \$1 million, one quarter of 0.60% on accounts less than \$1 million, paid quarterly in arrears.
Third Party Investment Adviser ("TPIA") program	One quarter of 1.35% annually paid quarterly in arrears

Fees will be automatically deducted from the Fund and the VIT Fund. Private Client accounts and Asset Allocation Consult accounts will be debited via instructions to the custodian of the account, or direct invoice to the client. Fees on SMA accounts are billed to the administrator of the SMA platform. Fees for TPIA services may be billed directly to client accounts or paid from outside the account. PFM bills the Advisory Fee for its services and an additional advisory fee specified by the adviser or broker in the contract and remits payment for the adviser or broker to the financial institution of the adviser or broker. Fees are disclosed on customer account statements from the custodian.

### Other Fees and Expenses

Besides PFM's management fee (discussed above), there are other fees to note:

**Portfolio expenses:** On C Shares, I Shares, R Shares and all classes of the VIT fund, there are no up-front or deferred sales charges. On A shares there is a maximum 5.75% up front sales charge ("Load"). Investment funds have annual expenses and may assess other fees that are described in each fund's prospectus or equivalent, which are in addition to and separate from the fee paid to PFM. The internal expense ratios of the ETF/Mutual Fund portfolios PFM constructs typically range from 0.15-0.3%. This is how the fund companies are paid. See Fund Summary section in the Prospectus for more details about fees.

**Custodian/Clearing expenses:** PFM conducts periodic reviews to ensure its trading costs are reasonable relative value received from its custodians. In the absence of soft dollar charges, PFM does not pay commissions, other than a \$10 trade ticket fee per trade, for trades in the Probabilities Fund and the Probabilities VIT Fund accounts which are custodied at Union Bank.

Trades in accounts at Interactive Brokers that are executed by Gar Wood Securities are charged a 1-cent per share commission (\$1 minimum per trade) through Keystone Capital Corp. and Gar Wood Securities are generally \$0.005 per share with few, if any other charges. Keystone Capital Corp. and Gar Wood Securities, and account

custodians may assess other fees as well, such as wire and exchange fees, IRA fees, custody fees, etc.

#### **Termination**

Private Client account clients will have a period of five (5) business days from the date of signing an advisory agreement to unconditionally rescind the agreement and receive a full refund of all fees. Thereafter, either party may terminate the advisory agreement with 30 days written notice. Upon termination, fees will be prorated to the date of termination and the unearned portion will be refunded.

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Adviser does not charge or receive, directly or indirectly, any performance-based fees.

### **TYPES OF CLIENTS**

PFM provides its services to individuals, high net worth individuals (individuals who are “qualified clients” under rule 205-3 of the Advisers Act of 1940 or are “qualified purchasers”), trusts, estates, registered investment companies, and other pooled investment vehicles including hedge funds.

The general investment minimum required for investing in the Fund is \$2,500 (Class A, C, I and R Shares). The Firm prefers a minimum investment of \$5,000,000 for a separately managed account. Family accounts may be aggregated in order to meet the minimum account size. The Firm has discretion to waive minimum investments both in the Fund and in separate accounts.

Account minimums may be waived at the discretion of PFM.

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **Methods of Analysis**

PFM uses a combination of the following types of analysis in evaluating investments for the Fund. These include, but are not limited to:

- Technical—Analysis which assumes past performance is a predictor of future performance
- Charting—Analysis of charts of past stock performance
- Cyclical—Analysis of up and down market cycles

PFM uses the following sources of information in its analysis:

- Financial newspapers and magazines
- Inspections of corporate activities
- Research materials prepared by others

- Annual reports, prospectuses, and other filings with the Securities and Exchange Commission
- Company press releases and conference calls

PFM may speak and visit with company management or attend or replay investor conferences sponsored by broker-dealers or fund companies in which PFM may invest.

## **Investment Strategies**

PFM's goal is to achieve consistent performance over a long term horizon by implementing a systematic calendar driven strategy coupled with current event tactical decisions that seeks to take advantage of seasonal and other variations in stock market indices.

In the mutual funds and in Separately Managed Accounts that are invested in substantially similar strategies (collectively, the "Funds"), PFM employs a systematic approach, taking long, short or leveraged positions in index and/or sector funds (such as the DJIA and S & P 500 index ETFs and/or individual sector ETFs such as Energy or Pharmaceuticals) to capitalize on long term variations of the respective indices or sectors. Accordingly, it is anticipated that the vast majority of the Funds' underlying assets will consist of the US stocks that make up the composition of these indices and/or sectors through funds (typically ETFs).

The Funds ordinarily will invest in securities (primarily ETFs) that trade in sufficient volume to allow for swift execution of transactions. Positions in securities may be held for very short periods, even as little as a portion of one day. PFM may engage in transactions in exchange-listed options in conjunction with or in lieu of taking a position in underlying securities, including writing options. PFM also may engage in short sales of securities and margin transactions. The Funds may also invest or trade in cash commodities, commodity futures, or commodity options contracts after securing all necessary registrations from the N.F.A., C.F.T.C., or other regulatory agencies.

PFM has the power to do any and all acts necessary, appropriate, proper, advisable, incidental or convenient to or for the furtherance of the investment management and Advisory services it provides to the Funds.

Legacy Accounts and other separately managed accounts may be managed using customized strategies as determined by the client and the account manager after consultation regarding the client's investment objectives and risk tolerance. Any customized strategy implemented by PFM is agreed to by the client in a Management Agreement that also includes a Fee Agreement.

## **Risk of Loss**

PFM does not guarantee the future performance of the Funds or any specific level of performance, the performance of any investment decision or strategy that PFM may use, or the performance of PFM's overall management of the Funds or client accounts. Clients are reminded that investment decisions made for the account by PFM are subject to various market, currency, economic, political and business risks and that those investment decisions will not always be profitable. Investing in securities entails risk of loss. More specifically, these risks include, but are not limited to:

### *Short Selling Risk*

The Funds may sell securities and other investment instruments “short” as an integral part of its strategies.

A short sale of a security is effected by selling a security that the Fund does not own, or selling a security which the Fund owns but that it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the Fund must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to re-deliver such asset to the lender.

The Funds must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security.

This obligation must, unless the Funds then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash or marketable securities with the lender.

Short-selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Funds.

In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing any loss incurred. Furthermore, the Funds may be forced to close out a short position prematurely if a counterparty from which the Fund borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position. PFM typically will use leveraged or non-leveraged “inverse” ETFs to accomplish a short position.

### *Leverage*

The Funds strategies may leverage investment activities not only through selling securities short, but also through borrowing funds, purchasing securities on margin and possibly using options, repurchase and reverse repurchase agreements and swaps or most likely, through “Leveraged ETFs”. Leverage magnifies the changes in the value of the Leveraged ETFs, which could result in significant losses to the portfolio. It also results in interest expense on the borrowings used to leverage its positions.

### *Key person*

Due to the size of PFM the retirement, death, incapacitation, and permanent or temporary loss of Mr. Joseph B. Childrey would have a catastrophic impact on PFM because he holds multiple positions within the firm. In addition to being the principal owner of PFM he is also the Chief Investment Officer who is solely responsible for any investment decisions. PFM would likely be unable to continue as a business. With the addition of other officers, PFM has reduced this risk. Mr. Childrey and Ms.

Gray share in the investment decision making process and the day-to-day portfolio management operations of the fund. In the event of incapacitation of Mr. Childrey, and Ms. Gray, in collaboration with the firm's investment committee, consultants and service providers. They are qualified and equipped to ensure the continuation of the company, its investment strategies, products and services.

#### *Liquidity*

Fund shareholders may buy and sell shares at the daily NAV.

#### *Market timing risks*

Fund shareholders may miss out on beneficial movements in price due to an error in timing. It is also difficult to consistently time the market.

### **DISCIPLINARY INFORMATION**

Neither PFM, nor any of its officers or principals has been involved in any investment-related criminal or civil actions in a domestic, foreign or military court.

Neither PFM, nor any of its officers or principals has been found (1) to have caused an investment-related business to lose its authorization to do business or (2) to have been involved in a violation of an investment-related statute or regulation and the subject of an order in connection with any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither PFM, nor any of its officers or principals has been involved in any self-regulatory organization proceedings.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither PFM, nor any of its officers or principals, is registered as a broker-dealer.

Ms. Gray is in charge of operations, and client services.

Neither PFM nor any of its officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

Mary Gray is an insurance agent appointed with various insurance companies.

Ms. Gray may recommend insurance products, and receive commissions and other compensation if products are purchased through any firms with which he is appointed.

This creates an incentive to recommend insurance products which creates a potential conflict of interest exists between their interests and those of the advisory clients. However, clients are under no obligation to act upon any of their recommendations or execute any transactions through them if they decide to follow his recommendations.

Due to the nature of certain insurance products there is sometimes an incentive to exchange one product for a similar product with the primary purpose of generating commissions. Depending on the timing of the exchanges clients may pay additional charges to surrender the old insurance products.

Insurance products can be complex because of the various riders that may be attached, redemption or surrender policies, penalties or tax consequences, liquidity, various charges, loans policies, and the impact on account values and death benefits by withdrawals. A professional could use a position of trust to recommend complex products to clients with limited understanding of the products they are purchasing. PFM addresses these potential conflicts by adhering to suitability and disclosure obligations and making sure that adequate training is provided.

PFM's business also includes providing investment management and Advisory services tailored to the unique needs of annuity owners.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

PFM has adopted a Code of Ethics which describes the general standards of conduct that PFM expects of all Firm personnel (collectively referred to as "employees"). Failure to uphold the Code of Ethics may result in disciplinary sanctions, including termination with PFM. Any client or prospective client may request a copy of PFM's Code of Ethics which will be provided at no cost by contacting Mary Gray at 800.519.0438.

The following basic principles guide all aspects of PFM's business and represent the minimum requirements to which PFM expects employees to adhere:

- Clients' interests come before employees' personal interests and before PFM's interests.
- PFM must fully disclose all material facts about conflicts of which it is aware between PFM and its employees' interests on the one hand and client and PFM's interests on the other.
- Employees must operate on PFM's behalf and on their own behalf consistently with PFM's disclosures and to manage the impacts of those conflicts.
- PFM and its employees must not take inappropriate advantage of their positions of trust with or responsibility to clients.
- PFM and its employees must always comply with all applicable securities laws.

The Code of Ethics focuses on specific areas where employee conduct has the potential to adversely affect the client:

### *Personal Securities Trading*

Trading by PFM personnel in Personal Accounts is subject to review by the CCO. Employees are allowed to trade in their personal accounts stocks, bonds, mutual funds, ETFs, options and pre-approved private placements. Personnel are prohibited from trading ahead of clients. This creates a potential conflict of interest with respect to

recommendations to buy or sell securities. In all cases, recommendations are made in the best interests of the client.

Employees may invest simultaneously with clients as long as the same price is obtained. Personal trades must be reported quarterly to the PFM CCO and holdings are reported annually. Both personal trades and holdings are reviewed on a periodic basis to ensure compliance with PFM's policy. Breaches to the policy are taken seriously and may be met with disciplinary action including termination of employment.

#### *Outside Business Activities*

Employees are required to report any outside business activities generating revenue. If any are deemed to be in conflict with clients, such conflicts will be fully disclosed.

## **BROKERAGE PRACTICES**

### **Broker Selection**

PFM utilizes Keystone Capital Corp. and Gar Wood Securities to execute securities transactions for the Fund, the VIT Fund and Private Client accounts invested in a substantially similar strategy. Consequently, these transactions may not always result in the "best execution" for its clients' securities transactions. What constitutes "best execution" and determining how to achieve it are inherently uncertain. In evaluating whether a broker will provide best execution, a range of factors is considered. These include, among others:

- Historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions;
- The execution, clearance and settlement and error correction capabilities of the broker generally and in connection with securities of the type and in the amounts to be bought or sold;
- The broker's willingness to commit capital;
- The broker's reliability and financial stability; and
- The availability of investment products.

By selecting Keystone Capital Corp. and Gar Wood Securities as the broker, PFM is not required to select the broker that charges the lowest transaction cost, even if that broker provides execution quality comparable to Keystone Capital Corp. and Gar Wood Securities. PFM expects at times to pay more than the lowest transaction cost available in order to obtain for itself and/or its clients services and products other than securities transactions execution. Lower fees for comparable service may be available from other sources.

### **Research and Other Soft-Dollar Benefits**

"Soft dollars" is a term applied to commission revenue generated by client trades which is then used to pay for services provided to an investment adviser. These services must

apply to benefit clients and include research and other related services as defined by Section 28(e) of the Securities and Exchange Act of 1934.

PFM acquires research via a soft dollar arrangement with Keystone Capital Corp. and Gar Wood Securities. Keystone Capital Corp. and Gar Wood Securities tracks the commissions generated through their firm and based on the volume of commissions generated they give PFM a soft dollar credit. PFM presents invoices for research services to Westminster Research for reimbursement. Westminster reviews the invoice to confirm that the payment would be legitimate and they pay the vendor directly. It also receives benefits as a result of the assets it manages which are held with Union Bank ("the Custodian"), TD Ameritrade or other custodians.

These benefits include access to electronic trading platforms, manager and investment research, marketing materials, investment policy guidelines, practice management assistance, seminars and conferences.

### **Brokerage for Client Referrals**

PFM does not directly or indirectly compensate any person or broker for client referrals.

### **Directed Brokerage**

Client directed brokerage is permitted. As a result, the client may be unable to obtain the most favorable execution of transactions. Directing brokerage may be more costly for clients because clients may not be able to obtain the best available execution of their securities transactions. Clients may also pay higher commissions, transaction and brokerage fees than may be available from other broker-dealers. Most clients choose to open accounts at custodians recommended by PFM including Schwab, TD Ameritrade and Interactive Brokers. However depending on individual circumstances PFM will also accept accounts that are held at other custodians and will direct trades through those custodians. Each custodian or Broker/Dealer sends orders to the market. Clients do not direct placement of individual trades to other broker/dealers outside of the custodian that holds the account.

### **Order Aggregation**

As a general policy, PFM attempts to trade as a firm – to trade in such a manner that its clients and products are not competing against one another in the marketplace. At a PFM trader's discretion, client trades may be bunched in a single order (a "block") in an effort to obtain best execution at the best security price available.

If a block order is filled (full or partial fill) at several prices through multiple trades, an average price will be calculated for all trades executed, and all participants in the block trade will receive the average price. Only trades executed within the block on the single day may be combined for purposes of calculating the average price.

Trades are allocated to underlying client accounts after completion of each trade, but no later than by day-end. All partial fills are generally allocated to client accounts on a *pro rata* basis subject to rounding. In all cases, PFM tries to ensure trade allocations are fair to its clients.

While this policy is applied consistently, PFM may deviate from this policy if it determines the standard method of aggregating or allocating trades would result in unfair or inequitable treatment to some or all of its clients. Keystone Capital Corp. and Gar Wood Securities do not provide a commission expense advantage to participants in block trades. Each participating account participating in a block trade pays transaction fees (when applicable) as if the trade had occurred on an account by account basis. The sole advantage to enacting block trades for clients at Keystone Capital Corp. and Gar Wood Securities is for all clients trading in the same security on the same day to receive the same price.

## **REVIEW OF ACCOUNTS**

The Funds are reviewed on at least a weekly basis and separately managed accounts are reviewed at least monthly by Mr. Childrey.

Separate account holders receive statements on at least a quarterly basis directly from their account custodian.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

PFM does not, nor do any of its principals or employee, receive any economic benefit from non-clients for providing Advisory services to its clients. Employees are compensated by salary and bonus.

## **CUSTODY**

Keystone Capital Corp. and Gar Wood Securities will use Interactive Brokers Group, Inc. and COR Clearing for custodial and clearing services on behalf of PFM. Union Bank, NA is the custodian for the Probabilities Fund and the Probabilities VIT Fund. Because PFM generally has the authority to instruct the account custodian to deduct the investment management fee directly from the client's account, PFM is considered to have "custody" of client assets.

PFM withdraws fees directly from client accounts. Assets are held by qualified custodians. Clients receive information about the qualified custodian's name, address, and the manner in which the funds or securities are maintained. The qualified custodian also sends account statements on at least a quarterly basis. PFM will send itemized invoices to clients each time that an advisory fee is deducted. These invoices will include the formula used to calculate the fee, the amount of assets under management the fee is based on, and the time period covered by the fee.

## **INVESTMENT DISCRETION**

PFM manages securities portfolios on a discretionary basis and has limited power of attorney to execute transactions without obtaining specific consent prior to every transaction. For the Fund, and VIT Fund this authority is limited to its cash and securities.

## **VOTING CLIENT SECURITIES**

### **Proxy Voting Fund**

PFM has retained Institutional Shareholder Services (“ISS”) to vote proxies on PFM’s behalf.

Nationwide votes proxies as directed by the Annuity Owner using the “Echo Voting System.” To learn more about this process and system, please contact PFM at (800) 519 0438 and/or [mgray@probabilitiesfund.com](mailto:mgray@probabilitiesfund.com).

### **Class Action Litigation**

PFM may from time to time receive notices of pending class action litigation involving securities held in the Fund or client accounts. PFM generally reviews class action notices, conducts a preliminary cost-benefit analysis and makes a determination on a case-by-case basis if participation is in the best interest of the Fund and its investors. PFM does not review class action notices on behalf of clients. Custodians are directed to forward all shareholder related materials to the owner of the account.

### **Proxy Voting Other Clients**

PFM has retained Institutional Shareholder Services (“ISS”) to vote proxies on behalf of clients. Clients may contact PFM with questions about particular votes by telephone at (800) 519 0438 or email at [mgray@probabilitiesfund.com](mailto:mgray@probabilitiesfund.com).

## **FINANCIAL INFORMATION**

There is no financial condition that is reasonably likely to impair PFM’s ability to meet its contractual commitments to its clients.