

**Check Capital Management Inc.**  
**FIRM BROCHURE**  
(Part 2A of Form ADV)

**November 24, 2021**

**Check Capital Management Inc.**

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**Part 2A of Form ADV (the "Brochure") provides information about the qualifications and business practices of Check Capital Management Inc. If you have any questions about the contents of this brochure, please contact us at (714) 641-3579. 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.**

**Check Capital Management, Inc. is a registered investment adviser with the SEC; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

**Additional information about Check Capital Management Inc. and its advisory personnel is also available on the SEC's website at [adviserinfo.sec.gov](http://adviserinfo.sec.gov).**

**ITEM 1: COVER PAGE**

Please refer to previous page.

**ITEM 2: MATERIAL CHANGES**

Check Capital Management Inc. (“CCM”) updated its Form ADV on March 25, 2021. Since that time, the firm has made the following additional material changes to its Brochure:

- Item 5 was updated to our current fee offerings. Our profit-based fee is no longer subject to a minimum quarterly prepaid fee.

Any questions: CCM’s Chief Compliance Officer, Robert Hill, remains available to address any questions regarding this Part 2A Brochure.

To receive a copy of our complete brochure, or for additional information about the firm and its advisory services and related fees, please contact us at (714) 641-3579, email us at [info@checkcapital.com](mailto:info@checkcapital.com) or visit our website at [checkcapital.com](http://checkcapital.com).

### ITEM 3: TABLE OF CONTENTS

<u>ITEM NUMBER</u>	<u>Page</u>
ITEM 1: COVER PAGE .....	2
ITEM 2: MATERIAL CHANGES .....	2
ITEM 3: TABLE OF CONTENTS .....	3
ITEM 4: ADVISORY BUSINESS .....	4
ITEM 5: FEES AND COMPENSATION .....	6
ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	9
ITEM 7: TYPES OF CLIENTS .....	9
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	10
ITEM 9: DISCIPLINARY INFORMATION .....	13
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	13
ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	13
ITEM 12: BROKERAGE PRACTICES .....	14
ITEM 13: REVIEW OF ACCOUNTS .....	19
ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION .....	19
ITEM 15: CUSTODY .....	19
ITEM 16: INVESTMENT DISCRETION AND LIMITATIONS .....	20
ITEM 17: VOTING CLIENT SECURITIES .....	20
ITEM 18: FINANCIAL INFORMATION .....	21
QUESTIONS .....	21

## ITEM 4: ADVISORY BUSINESS

### A. Description of Firm

CCM is an SEC-registered investment adviser with its principal place of business located in Costa Mesa, California. CCM began conducting business in 1987. The firm was founded by Steven Check and is owned by the Check Family Trust.

### B. Type of Advisory Services Offered

**Separately Managed Accounts:** CCM's primary business is asset management of accounts for individuals, high-net-worth clients, retirement plans and corporate clients, among others ("Clients"). Investments are predominantly in stocks, corporate/municipal bonds, and stock options.

CCM asks the Client for specific information, such as investment objectives, investment time-horizon, tax considerations, and any reasonable restrictions on the management of the Client's assets. We will invest the Client's account assets based on those guidelines and in accordance with the CCM investment program selected by the Client. In performing its services, CCM will not be required to verify any information received from the Client or from the Client's other professionals, and is expressly authorized to rely on the information in its possession.

Clients are responsible for notifying CCM if there is ever any change in their financial situation or investment objectives so that CCM can review, and if necessary, revise its previous recommendations or services.

**General Asset Allocation Advice & Retirement Cash Flow Plans:** CCM provides asset-allocation advice (stocks, bonds, cash weighting) and complimentary retirement income-planning services where retirement cash flow plans may be generated.

**Mutual Fund:** CCM is the investment adviser to the Blue Chip Investor Fund, an investment company registered under the Investment Company Act of 1940. The fund Prospectus and Statement of Additional Information are available online at [bluechipinvestorfund.com](http://bluechipinvestorfund.com). Prospective investors should review these documents carefully before making an investment in the Blue Chip Investor Fund. For CCM clients, CCM can and will use its discretionary authority to place client assets in the Fund. Assets invested in the Fund are excluded from CCM's management fee disclosed in Item 5 below. CCM's only compensation relating to an investment in the fund is the management fee it receives directly from the fund. CCM's management fee for its services provided to the fund is usually less than the asset-based management fee that CCM discloses below for separately managed account clients. However, the expense ratio of the fund (not including any interest expenses) is usually the same as the asset-based management fee.

**Publication of Periodicals:** CCM publishes a monthly newsletter, *The Blue Chip Investor*, providing general information on equity investing, asset allocation, market valuations, etc. The

information provided does not purport to meet the objectives or needs of any individual investor. The annual subscription rate is \$249. The newsletter is provided free of charge to Clients.

**Non-Asset-Management Services:** CCM generally does not provide estate, tax, and insurance planning. We do not serve as an attorney, accountant, or insurance agency, and no portion of our services should be construed as legal or accounting services. Accordingly, we do not prepare estate planning documents, tax returns or sell insurance products. To the extent requested by a client, we may recommend the services of other professionals (e.g. attorneys, accountants, insurance agents). Clients are under no obligation to engage the services of any recommended professional. The client retains absolute discretion over all implementation decisions and is free to accept or reject any recommendation that we make. If the client engages any unaffiliated recommended professional, and a dispute arises thereafter, the client agrees to seek recourse exclusively from the engaged professional. At all times, the engaged professional and not CCM shall be responsible for the quality and competency of the services provided.

**Retirement Rollovers/Potential for 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 CCM recommends that a Client roll over their retirement plan assets into an account to be managed by CCM, such a recommendation creates a conflict of interest if CCM will earn new (or increase its current) compensation as a result of the rollover. When acting in such capacity, CCM serves as a fiduciary under the Employee Retirement Income Security Act (ERISA), or the Internal Revenue Code, or both. No Client is under any obligation to roll over retirement plan assets to an account managed by CCM.

**Client Obligations:** In performing our services, CCM shall not be required to verify any information received from the Client or from the Client's other professionals, and is expressly authorized to rely thereon. Moreover, it remains each Client's responsibility to promptly notify CCM if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

**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 CCM) will be profitable or equal any specific performance level(s). See Item 8 for additional information regarding risks.

**Performance-Based Fees:** As disclosed more fully below in Items 5 and 6, clients may be able to engage CCM on a performance-based fee arrangement.

### C. Assets Under Management

As of December 31, 2020, assets under management were \$1,255,708,810. This was comprised of \$1,180,097,002 of discretionary assets and \$75,611,808 of non-discretionary assets.

### D. Participation in Wrap Programs

CCM continues to provide advisory services indirectly to clients through the UBS Managed Account Consultants Wrap Fee Program (UBS MAC Program), sponsored by UBS Financial Services, Inc. (UBS). These accounts were introduced to CCM through the sponsor (UBS) and are managed according to the Quality Growth Program composite strategy. These accounts are managed side-by-side with all other separate accounts that participated in the Quality Growth Program composite strategy. CCM receives a portion of the Wrap Fee charged by the sponsor as disclosed in Item 5 below. CCM no longer accepts clients under this program and does not participate in any other wrap program.

## ITEM 5: FEES AND COMPENSATION

As discussed below, CCM currently offers Clients two fee-schedule choices for its asset-management services. One choice is an asset-based management fee and the other is a profit-based management fee. Clients are advised that profit-based fees involve a sharing of any portfolio gains between the client and the adviser. Such profit-based fees create conflicts of interest, which are described in greater detail below in Item 6.

### **Management Fee Choice #1:**

**Asset-Based Management Fee:** 1% of the Account Assets annually. A quarterly fee of 0.25% (1% annualized) will be assessed and charged in advance based on the value of the Client's Account as of the last day of each calendar quarter. Fees will be pro-rated for the first partial quarter under management and based on the starting value of the Client's Account, plus any deposits and minus any withdrawals during the partial quarter. If the managed account relationship is terminated by either the Client or CCM, there will be a pro-rated refund of any fees collected in the final quarter.

### **Management Fee Choice #2:**

**Profit-Based Management Fee:** 10% of account profits. This option is available only for Clients who meet the definition of "qualified client" as described below.

As of each Annual Fee Assessment Date (defined below) a prospective fee ("10%-of-Profits Fee") will be charged for the Billing Period. The fee is 10% of any "New Appreciation". New Appreciation is the amount that the Client's Account value exceeds the Account's "High-Water Mark" (defined below).

The initial "High-Water Mark" for the Client's Account is the initial Account value. If there are contributions to the Client's Account, the High-Water Mark will be increased by the amount of the

contributions. If there are withdrawals from the Client's Account when the account value is above the High-Water Mark, the High-Water Mark will be reduced by the amount withdrawn. If there are withdrawals from the Client's Account when the account value is below the High-Water Mark, the High-Water Mark will be reduced by the percentage of the Account value withdrawn. As of any Annual Fee Assessment Date, if the Client's Account value exceeds the High-Water Mark, the High-Water Mark will be increased to the then-current Account value.

"Annual Fee Assessment Date" is initially the end of the first four complete calendar quarters plus the remainder of the partial calendar quarter that includes the Account's inception. After the initial Annual Fee Assessment Date, the Annual Fee Assessment Date shall be each calendar year anniversary thereof.

"Billing Period", shall be the period of time beginning on the date of the last 10%-of-Profits Fee (or the Account's inception if there is no such date) and ending on Annual Fee Assessment Date or the termination of this Agreement, if applicable.

**The Profit-Based Management Fee is illustrated in the following examples:**

**Example 1:** Client A engages CCM to manage a \$1 million account on 8/14/2021. The first Annual Fee Assessment Date is 9/30/2022. During the initial Billing Period (8/14/2021 - 9/30/2022), the account value gains 10% to \$1,100,000 (assuming no deposits/withdrawals). Below is the calculation for the 10%-of-Profits Fee.

Account's inception value (initial High-Water Mark): \$1,000,000  
New Appreciation = \$1,100,000 - \$1,000,000 = \$100,000  
10% of any New Appreciation: 10% x \$100,000 = \$10,000  
New High-Water Mark after year one: \$1,100,000

**Example 2:** Client A engages CCM to manage a \$1 million account on 8/14/2021. The first Annual Fee Assessment Date is 9/30/2022. During the initial Billing Period (8/14/2021 - 9/30/2022), the account value declines 10% to \$900,000 (assuming no deposits/withdrawals). Since there's no profit, no 10%-of-Profits Fee would have been due. The Billing Period is extended, and the next Annual Assessment Date is 9/30/2023. In year two (10/01/2022 - 9/30/2023), Client A's account value appreciates from \$900,000 to \$1,200,000 (again, assuming no deposits/withdrawals). Below is the calculation for the 10%-of-Profits Fee due at the end of year two.

Account's inception value (initial high-water mark): \$1,000,000  
New Appreciation = \$1,200,000 - \$1,000,000 = \$200,000  
10% of New Appreciation: 10% x \$200,000 = \$20,000  
New High-Water Mark after year two: \$1,200,000

**Qualified Client:** As of the date of this Brochure, the term "qualified client" generally includes: (i) A natural person who, or a company that, immediately after entering into an advisory contract has at least \$1,100,000 under the management by CCM; or (ii) A natural person who, or a company that, CCM reasonably believes prior to entering into the contract, either has a net worth

of more than \$2,200,000, excluding the client's primary residence, or is a qualified purchaser as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 at the time the contract is entered into.

**Management Fee Payment:** We will send Clients an invoice for the payment of our management fees, or we will deduct our fee directly from Client accounts through the custodian holding the funds and securities. We will deduct our management fee only when given written authorization by the Client permitting the fees to be paid directly from their account. Further, the custodian will deliver an account statement to the client at least quarterly. These account statements will show all the disbursements from the account. Clients should review all statements for accuracy. More information regarding directly debiting advisory fees from Client accounts can be found in Item 15.

**Termination of the Advisory Relationship:** Either party may terminate the Investment Advisory Agreement at any time by giving written notice to the other. Upon termination, any prepaid, unearned fees will be refunded.

**Blue Chip Investor Fund:** The mutual fund pays an asset-based management fee to CCM. Assets invested in the fund are excluded from CCM's management fee disclosed above. CCM's only compensation relating to an investment in the fund is the management fee it receives directly from the fund.

**Limited Prepayment of Fees:** Under no circumstances does CCM require or solicit payment of fees more than six months in advance of services rendered.

**UBS MAC Program Wrap-Fee:** In a wrap-fee arrangement, clients pay a single fee for advisory, brokerage and custodial services. That means that Client portfolio transactions are executed without commission charges pursuant to a written wrap-fee agreement. For Clients participating in the UBS MAC Program, UBS charges a single fee of which CCM receives 1% on an annualized basis. CCM does not charge any additional fees on top of the Sponsor's fees.

**Advisory Fees in General:** The fees outlined represent the fees CCM generally charges for portfolio management services. However, CCM fees may be negotiable and arrangements with any particular Client may differ from those described above. In the past, CCM offered different management-fee options to clients, and they remain in effect per the Investment Advisory Agreement that was executed. Clients should note that similar advisory services may be available from other investment advisers for lower fees.

**Additional Fees and Expenses:** In addition to those fees charged by CCM, there are certain transactional charges applicable when purchasing and selling securities in Client accounts. The additional fees are charged by the broker/custodians and are separate and in addition to those fees charged by CCM. A written confirmation of each transaction, including all transaction charges, will be sent by the broker/custodians to the Client following execution of each transaction. Please refer to Item 12 for detailed information on these brokerage services.



All fees paid to CCM for the various services it provides to Clients are separate and distinct from the fees and expenses charged by third parties (including broker/custodians). These separate fees and expenses include, but are not limited to, custodial fees, execution costs, and mutual fund and exchange traded fund fees and expenses. Client assets also may be subject to transaction fees, brokerage fees and commissions, retirement plan administration fees (if applicable), trustee fees, deferred sales charges on mutual funds initially deposited in the account, rule 12b-1 fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. For mutual funds and exchange traded funds, a Client will be subject to its prorate payment of internal management fees, distribution fees, redemption fees and other expenses, which all shareholders in these funds are required to pay, which are fully described in the applicable fund's prospectus.

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As noted in Item 5 above, CCM charges certain Clients a performance-based fee (*i.e.*, a fee calculated based on a share of capital gains upon or capital appreciation of the assets or any portion of the assets of an advisory Client) as part of our Profit-Based Management Fee for separately managed accounts. Performance-based compensation payable to CCM may be larger than otherwise would be the case if the fee was calculated as a percentage of assets under management because the amount of the fee will be based on account performance. Performance-based fee arrangements create the following conflicts of interest: (i) performance-fee arrangements create an incentive for us to make investments that are riskier or more speculative in Profit-Based Management Fee accounts than would be the case in the absence of a performance fee; (ii) we stand to receive compensation with regard to unrealized (not sold) appreciation as well as realized (sold) gains in Profit-Based Management Fee client accounts; (iii) we have an incentive to offer investments that we believe will be more profitable than others to Profit-Based Management Fee accounts in order to earn more compensation; and (iv) the fees charged by us in Profit-Based Management Fee arrangements may be higher or lower than fees charged by other advisers for comparable services.

Side-by-side management refers to the fact the CCM manages accounts for Clients and the Blue Chip Investor Fund. This creates a conflict of interest if the same security is purchased in the fund and in client accounts at different times. To mitigate this conflict of interest, CCM had developed a trade rotation policy which is described in Item 12 below. In addition, it is CCM's policy to not show a preference to the fund or any Client, regardless of their custodian or management-fee arrangement.

## **ITEM 7: TYPES OF CLIENTS**

CCM manages accounts for individuals, corporations, partnerships, etc. CCM can manage almost any type of account (individual, joint, trust, IRA, profit-sharing, etc.) that can be opened at a brokerage firm. In addition, CCM serves as manager to the Blue Chip Investor Fund.

**Minimum Account Requirements:** CCM imposes a minimum investment of \$500,000 per new Client. This requirement may be waived, at CCM's sole discretion. The Blue Chip Investor Fund maintains minimum initial and subsequent investment amounts described in its Prospectus.

There may be times when certain restrictions are placed by a Client, which prevents CCM from accepting or continuing to manage the portfolio management account. CCM reserves the right to not accept or terminate management of a Client's account for any reason.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Methods of Analysis**

CCM's investment philosophy is based on a "Warren Buffett style" approach which stems from Ben Graham's classic observation that "investing is most intelligent when it is most business-like." That means that CCM does not just view stocks as financial instruments that trade up or down; instead, we view them as ownership stakes in the underlying businesses.

For its portfolio holdings, CCM generally seeks a "margin of safety" in terms of price paid relative to business value received. We believe that buying at a discount to intrinsic business value not only offers a magnified prospective return, but more importantly, provides a buffer against the things that can go wrong. CCM's commitment is to focus on the long term.

CCM does its own fundamental research. We read company annual reports, listen to conference calls, and review company presentations. We compare companies to their peers. We try to envision what the company will be earning three (3) to five (5) years from now. We often write our own proprietary research reports on companies whose stocks we own for Clients.

CCM also utilizes research such as Morningstar, Value Line, Bloomberg, Texus and other commercial software, to assist in its overall evaluation of securities.

### **B. Investment Strategies**

Depending on Clients' investment objectives, risk tolerance and time horizons, Clients choose (with our guidance) a CCM investment program or fund. The portfolios usually consist of stocks, bonds and stock options. Our investment programs are known as 1) Quality Growth Program; 2) Equity-Income Program; 3) Balanced Program; 4) Berkshire Covered Call Program; 4) Private Program, and 5) flexFOLIO Program. Each program is briefly described below.

**Quality Growth Program** portfolios emphasize capital appreciation and preservation through investments in stocks of high quality companies. Accounts usually hold 15-25 stocks when fully invested. For taxable accounts, tax considerations are usually taken into account.

**Equity-Income Program** accounts emphasize income generation through investments in individual stocks and covered-call option positions. Individual stock investments are usually in large-cap stocks that pay dividend income.

**Balanced Program** accounts are similar to the Equity-Income Program accounts except in-the-money covered call option positions are employed. High-quality bonds or bond funds may also be purchased.

***Berkshire Covered Call Program*** accounts invest in Berkshire Hathaway stock and covered-call option positions.

***Private Program*** accounts use leverage. While money is not borrowed, leverage is employed by using stock options. The Private Program primarily uses a “Call Spreading Strategy” in which call options are owned at a lower strike price and shorted at a higher strike price. Secondarily, it may employ a “Call Option Buying” strategy. The investments are very focused and extreme volatility should be expected. A 100% loss could occur. Only clients seeking high returns with high risk should invest in the Private Program. The Private Program is limited to only Qualified Clients that agree to the Profit-Based Management Fee. Refer to section below, C. Risk of Loss, for more explanation.

***flexFOLIO Program*** accounts are non-discretionary. This program is for client accounts where CCM’s other investment programs are not deemed appropriate, but the client and CCM agree to have CCM manage the account with restrictions. Our “Bucket #1” accounts are managed under the flexFOLIO Program. Bucket #1 accounts are for short-term client money; this is most often money needed in the next three-to-five years. These assets are usually invested in money-market funds and short-term investment-grade bonds.

Clients can learn more about the above programs by discussing them with CCM personnel. The performance of discretionary CCM programs is verified by ACA Performance Services, the largest group of GIPS professionals in the world solely dedicated to GIPS verification and related services, and the verification report is available upon request.

***Blue Chip Investor Fund*** may be owned in Client accounts (UTMA, IRA, etc.). The mutual fund’s assets are maintained at US Bank. The fund maintains an independent administrator and an independent Board of Trustees (no person associated with CCM sits on the Board). The fund is a non-diversified fund, which makes it more susceptible to financial, market and economic events affecting the particular issuers and industry sectors in which they invest and therefore may be more volatile or risky than less concentrated investments. A complete description of the fund’s investment objective, investment strategy and risks are described in its Prospectus. To the extent that any Client or prospective Client has questions regarding a conflict of interest pertaining to an investment in the Blue Chip Investor Fund. CCM's Chief Compliance Officer, Robert Hill, is available to address questions.

## **C. Risk of Loss**

For its stock investments, CCM employs a fundamentals-based investment methodology. Our securities analysis makes use of publicly available sources of information. There is always a risk that our analysis may be compromised by undetected inaccuracies. In addition, our conclusions may prove to be wrong and investments for Clients may consequently result in losses.

Notably, investing in securities involves risk of loss that Clients should be prepared to bear. CCM's investment recommendations are subject to various markets, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients

should be aware that there may be a loss or depreciation to the value of their account and there can be no assurance that a Client's investment objectives will be obtained and no inference to the contrary is being made.

In addition, generally, the market value of securities will fluctuate with market conditions. The market value of bonds will generally fluctuate inversely with interest rates and other market conditions prior to maturity and will equal par value (face value) at maturity.

Investing involves risk including the possible loss of principle. In addition, there is no assurance that any of our clients will achieve their investment objective. Mutual fund and ETF investments also may result in unexpected tax liabilities which cannot be controlled by CCM or the Client.

Importantly, past performance of investments is no guarantee of future results. Some additional investment risks a Client should be aware of include, but are not limited, to the following:

- **Management Risk.** There is the risk that the investment techniques and risk analyses applied by CCM may not produce the desired results and that legislative, regulatory, or tax developments, may affect the investment techniques available to CCM. There is no guarantee that a Client's investment objectives will be achieved.
- **Liquidity Risk.** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Reinvestment Risk.** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (*i.e.*, interest rate). This primarily relates to fixed income securities.

CCM investment opportunities may also employ option strategies. The following risks are associated with these types of transactions:

- **Call Option Buying.** This is an options strategy where investors buy call options with the hope that the price of the underlying stock will move far enough to cover the premium paid for the option. Call options may expire worthless and a 100% loss could be incurred.
- **Call Option Writing.** Investors can sell options in order to obtain additional income from premiums paid by the option buyer. Call option writing is associated with the investment strategy known as covered-call writing. Covered calls dampen the downside, but also limit the upside, of a stock holding. **Please Note:** If the stock holding is "called away" by the option buyer, it can result in tax consequences to the client (the option writer) having to pay state and federal income taxes on the capital gains. The client must be prepared to accept such adverse tax consequences.
- **Call Spreading Strategies.** An option spread involves combining two different call-option strikes as part of a strategy. Similar with Call Option Buying, the options could expire worthless and a 100% loss incurred.

Prior to entering into an agreement with CCM, the Client should consider only committing to CCM's stock and option management services those assets that the Client believes can be invested for a minimum of three to five years.

## **ITEM 9: DISCIPLINARY INFORMATION**

CCM is required to disclose all legal and disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or the integrity of our management. CCM and its management personnel have no reportable disciplinary events to disclose.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither CCM nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities. As discussed earlier, CCM is the manager the Blue Chip Investor Fund.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Code of Ethics Summary**

The Investment Advisers Act of 1940 imposes a fiduciary duty on all investment advisers to act in the best interest of its clients. CCM's Clients therefore entrust us to use the highest standards of integrity when dealing with their assets and making investments that impact their financial future. Our fiduciary duty compels all employees to act with integrity in all of our dealings. Because CCM's investment professionals may transact in the same securities for their personal accounts as they may buy or sell for Client accounts, it is important to mitigate potential conflicts of interest. To that end, CCM has adopted personal securities transaction policies in the form of a Code of Ethics ("Code"), which all CCM associated persons must follow.

CCM's Code of ethics sets forth high ethical standards of business conduct which we require of our employees. CCM and its personnel owe a duty of loyalty, fairness and good faith toward all Clients and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

The CCM Code of Ethics sets forth policies and procedures for the review of quarterly securities transactions reports, as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (*e.g.*, private placement) or an initial public offering. Moreover, our Code includes oversight, enforcement and recordkeeping provisions.

The CCM Code of Ethics further includes our policy prohibiting the use of material non-public information for insider trading.

All CCM associated persons receive a copy of the Code of Ethics no less than annually, at which time they acknowledge their receipt and understanding. CCM will provide a copy of the Code to

any Client or prospective Client upon written request by emailing [info@checkcapital.com](mailto:info@checkcapital.com) or by calling us at (714) 641-3579.

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

CCM's Code permits associated persons of the firm to invest in the same securities as Clients. To mitigate any conflict, CCM's Code is designed to ensure that the personal securities transactions, activities and interests of our employees will not interfere with making decisions in the best interest of advisory Clients.

Employees are prevented from benefiting from transactions placed on behalf of advisory accounts. To that end, Employee trading is monitored under the Code, with an eye to reasonably prevent conflicts of interest between CCM and its Clients.

Side-by-side management refers to the fact that CCM manages accounts for individuals and a mutual fund. CCM has policies in place to ensure that all Clients of the firm and the mutual fund, are treated similarly regarding trade order and allocation. See additional information in Items 6 and 12.

CCM does not affect any principal or agency cross securities transactions for client accounts, nor does it affect 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. Should CCM ever decide to affect principal trades or cross-trades in client accounts, it will comply with the provisions of Rule 206(3) of the Advisers Act.

## **ITEM 12: BROKERAGE PRACTICES**

CCM generally recommends that Clients use the brokerage and custody services of Fidelity, Charles Schwab, or TD Ameritrade (collectively hereinafter "Broker/Custodians" or "Recommended Broker/Custodians") in connection with CCM's management of a Client account. While CCM may recommend using one or more of the Broker/Custodians, Clients ultimately decide whether to do so when they open an account with a Broker/Custodian. Clients will enter into a brokerage and custody agreement their broker or qualified custodian. CCM is independently owned and operated and not affiliated with any broker/custodians.

### **Factors Considered in Broker Recommendations**

Factors considered by CCM in recommending Client's utilize the services of a Broker/Custodian include, but are not limited to, the reasonableness of their commissions, their financial strength, product availability, research and other services available to both the Client and CCM.

CCM periodically evaluates the commissions charged and the services provided by the Recommended Broker/Custodians and compare those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative custodians.

CCM seeks to recommend Broker/Custodians who will hold Client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. CCM considers a wide range of factors, including, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody);
- capability to execute, clear and settle trades (buy and sell securities for your account);
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);
- breadth of investment products made available (stocks, bonds, mutual funds, ETFs, etc.);
- availability of investment research and tools that assist us in making investment decisions;
- quality of services;
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them;
- reputation, financial strength and stability of the provider;
- the custodian/broker's prior service to us and our other Clients; and
- availability of other products and services that benefit us, as discussed below (see "Products and Services Available to Us").

### **Products and Services Available through Recommended Brokers**

Each of the Recommended Broker/Custodians employs certain platforms that serve independent investment advisory firms like CCM. These platforms provide CCM and our Clients with access to their institutional brokerage – trading, custody, reporting and related services – which are not typically available to retail customers. These Broker/Custodians also make available various support services. Some of those services help us manage or administer our Clients' accounts while others help us manage and grow our business. The Broker/Custodians' support services generally are available on an unsolicited basis (i.e., CCM does not have to request them) and at no charge to us. Below is a detailed description of available support, products and services:

*Services that Benefit You.* Institutional brokerage services include access to a broad range of investment products, execution of securities transactions and custody of Client assets. The investment products available through the broker/custodians include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our Clients. CCM believes that these services generally benefit all Client accounts that utilize the services of the Referred Broker/Custodians.

*Services that May Not Directly Benefit You.* The Broker/Custodians also make available to us other products and services that benefit us, but may not directly benefit you or your account. These products and services assist CCM in managing and administering our Clients' accounts.

Products and services may include investment research of both the broker/custodian and of third parties. CCM may use this research to service all, some or a substantial number of our Clients' accounts.

In addition to investment research, we also may receive access to software and other technology that:

- provide access to Client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple Client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our Clients' accounts; and
- assist with back-office functions, recordkeeping and Client reporting.

*Services that Generally Benefit Only Us.* The broker/custodians also offer other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

The broker/custodians may provide some of these services themselves. In other cases, they may arrange for third-party vendors to provide the services to us. Other potential benefits to CCM may include occasional business entertainment of personnel of CCM by representatives of Recommended Brokers/Custodians, including meals and forms of entertainment, some of which may accompany educational opportunities. We also receive software and other technology support from the Recommended Broker/Custodians.

### **CCM's Beneficial Interest in the Broker/Custodian's Services**

The availability and use of the collective services referenced above from the Broker/Custodians benefits CCM in that the firm does not have to pay for such services out of pocket. CCM does not have to pay for such services so long as certain conditions are met. Such conditions give CCM an incentive to recommend that you maintain your account with these broker/custodians based on our interest in receiving those services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest.

While as a fiduciary CCM endeavors to act in its Clients' best interests, CCM's recommendation that Clients maintain their assets in accounts at these broker/custodians may be based in part on the benefit to CCM of the availability of some of the foregoing products and services and other arrangements, and not solely on the nature, cost or quality of custody and brokerage services provided by the broker/custodians, which creates a conflict of interest.



CCM believes, however, that our selection of the broker/custodians is in the best interests of our Clients. It is primarily supported by the scope, quality and price of their services as discussed above and not the services that benefit only us.

Chief Compliance Officer, Robert Hill, remains available to address any questions that a client or prospective client may have regarding the conflicts of interest presented by these arrangements.

### **Brokerage for Client Referrals**

Broker/Custodians that CCM recommends do not refer clients to our firm.

### **Directed Brokerage**

CCM does not have the discretionary authority to determine the broker-dealer to be used or the commission rates to be paid, clients must separately engage the broker-dealer to be used. As disclosed above, CCM generally recommends that Clients use the brokerage and custody services of Fidelity, Charles Schwab, or TD Ameritrade but does not require it. However, CCM reserves the right to decline acceptance of any client account for which the client directs the use of a broker other than the recommended Brokers or Custodians above if we believe that this choice would hinder our fiduciary duty to the client and/or our ability to service the account.

In directing the use of a broker, it should be understood that CCM will not necessarily have the authority to negotiate commissions or to obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to the client and those charged to other clients who may direct the use of another broker. Clients should note, while CCM has a reasonable belief that the Referred Broker/Custodians are able to obtain best execution and competitive prices, our firm will not be independently seeking best execution price capability through other brokers. Not all advisers require clients to direct it to use a particular broker-dealer. Please Also Note: Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

### **Aggregation of Client Trades**

CCM will order block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price.

CCM will typically aggregate trades among clients whose accounts can be traded at a given broker and will generally rotate or vary the order of brokers through which it places trades for clients on any particular day. When this happens, these circumstances may, in turn, give rise to conflicts of interest among the accounts for whom the security purchase or sale is appropriate, and among the subset of those accounts actually participating in a block trade, especially if the block trade order results in a partial fill. In order to address these conflicts, CCM has adopted certain policies and procedures that it follows when aggregating trades in an effort to provide an

objective and equitable method of trade allocation so that all clients are treated fairly. The basic objectives of these policies and procedures are as follows:

- (a) CCM will only aggregate trades when it believes that aggregation is consistent with its duty to seek best execution for its clients;
- (b) CCM will strive to ensure that no client account is favored over any other client account;
- (c) Transactions will generally be averaged as to price for each account that participates in an aggregated transaction; and
- (d) Partial fills are allocated using a rotational allocation method whereby each account will receive a full allocation in their order of priority until the entire order has been allocated. On sells, the accounts with the lowest percentage of cash will be allocated the shares first; for buys, the accounts with the largest percentage of cash will be allocated the shares first.

### **Trade Rotation**

From time to time, CCM may determine that the purchase or sale of a particular security is appropriate for multiple client accounts, including the Blue Chip Investor Fund, based on a variety of reasons. When this occurs, the following trade rotation policy is implemented. CCM's policy is to provide a fair and equitable method of trade rotation in placing trades for Clients' accounts, including the Blue Chip Investor Fund. For more information, please contact us at the telephone number or e-mail address listed on the cover page to this Brochure.

### **Trade Errors**

CCM has trade-error policies that neither advantage nor disadvantage clients; errors are simply corrected. When there is an error, CCM will correct the error as soon as possible and make the client whole.

### **Trading Away - Prime Broker Trades**

CCM doesn't affect any transactions in Client accounts other than through broker-dealers serving as the custodian for the account. For the Blue Chip Investor Fund, whose assets are custodied at U.S. Bank, trades are done with one of the brokerage firms used for Client accounts.

### **Additional Information about Brokerage Practices**

Chief Compliance Officer, Robert Hill, remains available to address any questions that a client or prospective client may have regarding the Brokerage Practices of CCM and any corresponding conflict of interest.

### **ITEM 13: REVIEW OF ACCOUNTS**

Underlying securities within managed accounts are continuously monitored. Client portfolios are reviewed on a regular basis. Additional reviews are also available at the Client's request. Triggering factors for an additional review include, but are not to, changes in a Client's financial situation, investment goals, and tax situation.

### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

As indicated at Item 12 above, CCM receives from Broker/Custodians without cost (and/or at a discount), support services and/or products (including the 2020 Bloomberg terminal from Fidelity). CCM's Clients do not pay more for investment transactions effected and/or assets maintained at Broker/Custodians as result of this arrangement. There is no corresponding commitment made by CCM to Broker/Custodians, or to any other entity, to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

#### **A. Compensation for Client Referrals**

CCM does not pay referral fees to independent persons or firms ("solicitors") for introducing Clients to CCM.

***Prior Participation in Referral Programs:*** In the past, CCM has participated in client referral programs operated by Charles Schwab and Fidelity Investments. CCM is no longer accepting referrals from these programs. However, CCM is still paying referral fees for past referrals from these firms. At Charles Schwab, the referral fee is 15% of the management fees that CCM receives from referred client accounts. At Fidelity Investments, the referral fee generally is a quarterly fee equal to 0.05% of a client's managed account assets and the fee lasts for the first seven years of the client relationship.

#### **B. Other Compensation**

It is CCM's policy not to accept (or allow our related persons to accept) any form of compensation—including cash, sales awards or other prizes—from a non-client in conjunction with the advisory services we provide to our Clients.

### **ITEM 15: CUSTODY**

CCM does not have physical custody of Client accounts. Nevertheless, pursuant to Rule 206(4)-2 of the Advisers Act, CCM is deemed to have custody because the firm has the authority and ability to instruct Schwab, Fidelity, TD Ameritrade and other broker/custodians to deduct our advisory fees directly from Client accounts. The Broker/Custodian maintains actual custody of Client assets. Clients will receive account statements directly from the Broker/Custodian at least quarterly. The statements will be sent to the email or postal mailing address the Client provided to the broker/custodian. Clients should carefully review these statements when received. CCM

also urges Clients to compare the broker/custodian's account statements to any portfolio reports that may be sent by us.

In addition, certain Clients have established asset transfer authorizations that permit the qualified custodian to rely upon instructions from CCM to transfer Client funds or securities to third parties. These arrangements are disclosed at Item 9 of Form ADV Part 1. However, in accordance with the guidance provided in the SEC's February 21, 2017 *Investment Adviser Association* No-Action Letter, the affected accounts are not subject to an annual surprise CPA examination.

CCM's Chief Compliance Officer, Robert Hill, remains available to address any questions that a client or prospective client may have regarding custody-related issues.

## **ITEM 16: INVESTMENT DISCRETION AND LIMITATIONS**

Clients hire CCM to provide discretionary asset-management services, which means we trade securities in a Client's account without contacting the Client for permission prior to each trade.

Our discretionary authority includes the ability to do the following without contacting the Client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell.

Clients give CCM discretionary authority when they sign a discretionary agreement with our firm and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions. For example, investment authority may be subject to specified investment objectives, guidelines, and/or conditions imposed by the Client, such as restricting investment in a particular stock and/or prohibiting transactions in the securities of a specific industry.

## **ITEM 17: VOTING CLIENT SECURITIES**

CCM votes proxies for Client accounts; however, Clients always have the right to vote proxies themselves. Clients can exercise this right by instructing us in writing to not vote proxies related to their account.

We vote proxies in accordance with our established policies and procedures. CCM retains a) all proxy voting records for the requisite period of time and b) copies of written Client requests enquiring how we voted proxies.

Clients may obtain a copy of our complete proxy-voting policies and procedures by contacting us at the telephone number or e-mail address listed on the cover page to this Brochure. Clients may request, in writing, information on how proxies for his/her shares were voted. If any Client requests a copy of CCM's complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information.

We will neither advise nor act on behalf of the Client in legal proceedings involving companies whose securities are held in the Client's account(s). We may, but are not required to, assist Clients in the filing of "Proofs of Claim" in class-action settlements.

## **ITEM 18: FINANCIAL INFORMATION**

Under no circumstances does CCM require or solicit payment of fees in excess of \$1,200 per Client more than six months in advance of services rendered. Therefore, we are not required to include a balance sheet.

As an advisory firm that maintains discretionary authority for Client accounts, we are required to disclose any financial condition that is reasonably likely to impair our ability to meet contractual obligations. No such conditions currently exist.

CCM has not been the subject of a bankruptcy petition at any time during the past ten years.

## **QUESTIONS**

CCM's Chief Compliance Officer, Robert Hill, is available to address any questions regarding this Brochure.