



## Disclosure Brochure

Form ADV Part 2

November 20, 2021

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This brochure provides the qualifications and business practices of CAPSTONE Investment Group, LLC (CAPSTONE). If you have any questions about this brochure, please contact Sandra K. Drennon by email at [sandi@capstoneig.net](mailto:sandi@capstoneig.net) or call 360-570-9888.

This information has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any State securities agency. Registration does not imply a certain level of skill or training. Additional information about CAPSTONE is available on CAPSTONE's website at [www.wisdomanddiscipline.com](http://www.wisdomanddiscipline.com).

**Item 2: Material Changes**

The material changes in this brochure from the last annual updating amendment of CAPSTONE Investment Group, LLC on 3/29/2021 are described below. Material changes relate to CAPSTONE Investment Group's policies, practices or conflicts of interests.

- CAPSTONE Investment Group, LLC has transitioned to registration with the United States Securities and Exchange Commission from its prior registration at the state level.
- CAPSTONE Investment Group, LLC has updated their primary office address (Cover page).

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#### **Item 4: Advisory Business**

CAPSTONE Investment Group, LLC (“CAPSTONE”), is a privately-owned investment advisor registered with the State of Washington since 2012. We are organized as a Limited Liability Corporation (“LLC”) in the State of Washington. Our Firm is dedicated to providing individuals and other types of clients with a wide array of investment advisory services. Sandra K. Drennon is the owner of Capstone Investment Group.

Our Firm provides asset management and investment consulting services for many different types of clients to help meet their financial goals while remaining sensitive to individual risk tolerance and time horizons. As a fiduciary it is our duty to always act in the client’s best interest. This is accomplished in large part by knowing the client. Our Firm has established a service-oriented advisory practice with open lines of communication. Working with clients to understand their investment objectives while educating them about our process, facilitates the kind of working relationship we value.

Financial Advisors who give investment advice on behalf of CAPSTONE have, at a minimum, demonstrated industry experience or its equivalent experience in business and/or have passed the FINRA (Formerly NASD) exam for Investment Adviser Financial Advisors (Series 65 or 66) and/or hold a professional designation, CFP (Certified Financial Planner) or equivalent.

#### **Types of Advisory Services Offered**

Financial Advisors provide investment management services, portfolio management and/or furnish investment advice. These services involve discretionary, daily oversight and selection of investment securities through fundamental and technical research, analyzing investment holdings to assist in managing client risk exposure while focusing on investor objectives. Portfolio Managers make daily decisions on a discretionary basis whereby our clients’ needs are maintained ahead of the firms’.

Additionally, Financial Advisors may provide financial planning services, pension consulting or offer selection of other financial services. Financial Advisors can tailor advisory services through a formal interview, risk tolerance questionnaire, or through other means such as a financial plan. Specific restrictions can be made for investing in certain types of securities by noting the same on the CAPSTONE Advisory Agreement or by notifying your Financial Advisor. Non-discretionary services are also available.

CAPSTONE may provide ERISA fiduciary and non-fiduciary services to retirement plans and their participants when the client executes a Retirement Plan Advisory Agreement. In rendering fiduciary services, CAPSTONE is a “fiduciary” under the Employee Retirement Income Security Act of 1974 (“ERISA”) and the Investment Advisers Act of 1940. The following is a summary of the Services provided and more specific terms and conditions are contained in the Retirement Plan Advisory Agreement.

**ERISA Non-Discretionary Fiduciary Services:** available include Investment Selection and Monitoring Services, Model Portfolios and Participant Advice, in providing these services CAPSTONE shall act as an ERISA Fiduciary. The recipient of such advice retains the sole discretion as to whether to implement the advice and to initiate action to implement the advice.

**ERISA Discretionary Fiduciary Services** available include Investment Selection and Monitoring Services, Model Portfolios and Qualified Default Investment Alternative. In providing ERISA Discretionary Fiduciary Services, CAPSTONE shall act as an ERISA Fiduciary and as an ERISA Section 3(38) Investment Manager. CAPSTONE shall retain final decision-making authority with regard to all ERISA Discretionary Fiduciary Services. The client retains the fiduciary responsibility to prudently select and monitor CAPSTONE in this regard.

**Financial Planning & Consulting:**

Our Firm provides a variety of standalone financial planning and consulting services to clients for the management of financial resources based upon an analysis of current situation, goals, and objectives. Financial planning services will typically involve preparing a financial plan or rendering a financial consultation for clients based on the client's financial goals and objectives. This planning or consulting may encompass Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, or Business and Personal Financial Planning.

Written financial plans or financial consultations rendered to clients usually include general recommendations for a course of activity or specific actions to be taken by the clients. Implementation of the recommendations will be at the discretion of the client. Our firm provides clients with a summary of their financial situation, and observations for financial planning engagements. Financial consultations are not typically accompanied by a written summary of observations and recommendations, as the process is less formal than the planning service. Assuming that all the information and documents requested from the client are provided promptly, plans or consultations are typically completed within 6 months of the client signing a contract with our Firm.

**Tailoring of Advisory Services**

Our Firm offers individualized investment advice to our Comprehensive Portfolio Management clients. General investment advice will be offered to our Financial Planning & Consulting and Retirement Plan Consulting clients. Each Comprehensive Portfolio Management client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. Restrictions on investments in certain securities or types of securities may not be possible due to the level of difficulty this would entail in managing the account.

**Participation in Wrap Fee Programs**

Our Firm does not offer or sponsor a wrap fee program.

**Regulatory Assets Under Management**

As of December 31, 2020, CAPSTONE Investment Group, LLC manages \$109190784.00 in assets on a discretionary basis and \$147624.00 in assets on a non-discretionary basis.

**Item 5: Fees and Compensation****Compensation for Our Advisory Services**

CAPSTONE receives fees for the investment management services which are noted within your Advisory Agreement.

Fees and/or other terms included in the client agreement may not be amended or negotiated without prior written notice and signed consent of all parties. Fee calculations are based upon the asset values provided by the custodian, and in most cases, fees are electronically debited as previously authorized by the client. However, it is possible to be invoiced for investment management services.

The following outlines our basic fee schedules, initial consultation and/or financial planning fees will be applied to services as agreed to by client and CAPSTONE as noted below.

## Planning Fees

**Plan only fees are charged and pre-approved by Client up to the following amounts:**

**Initial consultation: \$195/hour**

**Financial planning: \$195/hour\***

**Monitoring and review: \$195/hour**

\*Based upon our estimate of the total time required and the complexity of the client situation, the fee for planning services could vary. An engagement agreement would be signed by both client and CAPSTONE as to exact costs, with modifications to such plan likewise pre-approved by both parties. Our planning engagement exists to help you discover and define what you want out of life, how present and projected future financial circumstances effect those objectives, family needs and general lifestyle dynamics. Recognizing each client has unique and special considerations our services can be either limited or very broad. Areas that can be covered include, but are not limited to, the following:

- Identification of goals and objectives
- Estimate of assets, liabilities and net worth
- Investment portfolio analysis
- Financial independence/retirement income needs
- Income tax situation review
- Disability/capital needs analysis
- Education funding needs
- Estimate of estate value and settlement costs
- Estate planning including meeting with client attorney(s) and tax advisor(s)
- Advanced planning techniques and strategies to help clients maximize their financial, social and personal wealth

We do not collect fees of \$500 or more per client, but may collect fees under \$500 per client, six months or more in advance as agreed to by CAPSTONE and client. Half the agreed upon fee is due in advance with the balance due at completion and signatory by client. Unused fees will be returned to client.

## Standard Annual Asset Management Fees

### (Tier Based Schedule)

\$	0 -	250,000	= 1.85%
\$	250,001 -	500,000	= 1.65%
\$	500,001 -	750,000	= 1.50%
\$	750,001 -	1,000,000	= 1.35%
\$	1,000,001 -	2,000,000	= 1.15%
\$	2,000,001+		= 0 .75%

Billing is done monthly in arrears. In cases when the Advisory Agreement does not span the full billing period, asset management fees are pro-rated for the days the account has been open. You can terminate the management agreement at any time with written notice to: CAPSTONE Investment Group, LLC 2405 Evergreen Park Drive SW Bldg. A, Olympia, WA 98502, attention Chief Compliance Officer. A client can terminate new agreements within 5 business days without penalty. CAPSTONE does not charge separate termination fees, though the custodian may. Investment Advisor Financial Advisors may negotiate with client certain adjustments to our regular fee schedule.

Clients can view their fee information on their monthly statements provided by the custodian. Requests for a formal statement of charges and calculations can be made at any time.

In addition to the advisory fees charged by CAPSTONE, costs incurred include clearing firm transaction charges, commission on brokerage products, custodial fees or other charges. For information on brokerage expenses, please review the Brokerage Practices section of this brochure. If you have investments in mutual funds or other investment companies' funds that are used in calculating your advisory fees, those assets will be subject to additional advisory and other fees and expenses, as set forth in the prospectuses of those funds, paid by the funds but ultimately borne by the investor. CAPSTONE encourages you to compare the monthly asset management fee (invoice) charged against your account(s) to the fee posted on your account statement. Lower fees for comparable services may be available from other sources.

CAPSTONE offers referrals, investment advice, and management services. CAPSTONE Financial Advisors are also Registered Financial Advisors with Private Client Services ("PCS"), a FINRA/SIPC member broker/dealer and SEC Registered Investment Advisor. The Financial Advisor may recommend to clients or take an order from a client to sell or purchase securities or insurance products, which may produce additional compensation (commissions) for the Financial Advisor. This can create a conflict of interest in that there may be a financial incentive to recommend one product over another based on the amount of commissions paid. The investments, accounts and services offered by the broker/dealer are separate and distinctly different from the investment advisory services offered by CAPSTONE, even though the values of these investments may be shown on your advisory custodian statement. It could be the independent business plan of Financial Advisors that some advisory clients will be solicited to use the services of the affiliated entities.

There is no obligation for you to use any of the affiliated business services or products, and you may use the professional service providers of your choice. It is possible for the Financial Advisor to sell a client a security or insurance product (and receive a commission), and later move the investment to a managed account as an investment advisor and charge a fee to manage the investment. For example, a client may have purchased a mutual fund and paid a sales charge (commission) to buy that fund. Should at a later time the client's need, risk tolerance or investment objectives change this might influence a Financial Advisor's recommendation to actively manage these funds within CAPSTONE. Though not a matter of practice, such a scenario could occur while leaving any decision to do so to the client.

For ERISA accounts, fees are noted in the Advisory Agreement provided by CAPSTONE and the Financial Advisor. Unless otherwise noted in the Advisory Agreement, any 12(b)-1 fees, sub-transfer agency fees and/or other similar fees that CAPSTONE or its affiliates may, from time to time, receive shall be used to reduce CAPSTONE's advisory fees or be remitted to the plan directly.

#### **Item 6: Performance Based Fees**

CAPSTONE does not provide advisory services in a performance-based fee structure. Fees are calculated either by asset level or a specific fee for services rendered. However, Financial Advisors may refer you to another investment manager who offers a performance-based fee structure. This may create a conflict of interest in that performance-based fees may generate more revenue for the Financial Advisor and CAPSTONE in positive markets. Performance based investment accounts are held and reported on separately from such providers.

#### **Item 7: Types of Clients**

Most CAPSTONE clients are individuals and high net worth individuals. Clients may also consist of ERISA pension and profit-sharing plans, corporations, and charitable organizations. While there is a minimum of \$200,000 household asset size set by CAPSTONE, CAPSTONE may adjust the account minimum at its own

discretion.

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

Financial Advisors utilize various investment disciplines to manage accounts including, but not limited to, charting, fundamental, technical, and cyclical analysis and artificial intelligence (AI). AI, or perhaps better known as Robo- Advising, is used by the firm across many of our growth models. This provides efficiencies and discipline as provided by computer code to recommend asset allocations, by which CAPSTONE Investment Group uses as a guide for percentage allocation but uses its own security selection. Capstone, at their discretion, may override AI recommendations.

All forms of investing have the risk of losing money. Financial Advisors will assist you in assessing and stating your financial objectives and your risk tolerance through financial interviews, Investment Policy Statements, and/or other assessments. You are responsible for providing the Financial Advisors and CAPSTONE any updates or changes to your financial objectives, risk tolerance, or current financial situation. The active allocation of client portfolios could be directed by the Financial Advisors by using dynamic or tactical allocation procedures. Some instances might necessitate a buy-and-hold strategy for you by the Financial Advisor's recommendation.

Financial Advisors may use Modern Portfolio Theory as one tool to assess ongoing diversification and allocation process, while other situations could require taking a more static allocation approach to match your investment goals. Financial Advisors have the opportunity to utilize various third-party vendors for investment research and recommendations. This research could include custodians, clearing firms, outside Registered Investment Advisors, Turnkey Asset Management Programs (TAMP's), investment research firms, research publications and/or periodicals and other investment media facets. Investment strategies used to implement any investment advice could include short and long-term purchases, trading, and short sales. Some transactions might be on margin.

Strategies might also include option strategies. Investments that may be used by the Financial Advisors include, but are not limited to, over-the-counter and exchange-listed equity securities, real estate investment trusts, corporate debt securities, certificates of deposit, municipal securities, variable life insurance, variable annuities, mutual fund shares, United States government securities, cash or cash equivalents, master limited partnerships, unit investment trusts, exchange traded funds, or other securities. All of the investments used by CAPSTONE Financial Advisors have the risk of losing value. Financial Advisors may recommend or utilize cash balances in your portfolio. Use of a cash position may be in an effort to achieve a specific allocation or to protect you against losses. Unless noted specifically in your Advisory Agreement, cash balances are charged an advisory fee.

It is not the intention of CAPSTONE to leave more than a small percentage of monies in cash for extended periods of time, but rather to allocate there accordingly to mitigate risk or have a place for sell order proceeds to reside until such time as these funds are redeployed.

In addition to the types of investments and strategies noted above, CAPSTONE may invest in partnerships or limited liability companies that invest in equipment leasing and managed futures funds, which invest in futures and forward contracts of tangible and intangible commodities. Other investments could involve real estate and oil & gas partnerships, or direct participation programs. These investments bear significant risk as disclosed in the prospectus or private placement memorandum. It is important to recognize that investments noted in this section are highly illiquid, and the amounts shown on the statements might not accurately reflect the current liquidation value. With these investments, any stated value on the custodian statement should not be used for determining the present value of the asset.



**Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and the account(s) could enjoy a gain, it is also possible that the stock market may decrease, and the account(s) could suffer a loss. It is important that clients understand the risks associated with investing in the stock market, are appropriately diversified in investments, and ask any questions.

**Capital Risk:** Capital risk is one of the most basic, fundamental risks of investing; it is the risk that you may lose 100% of your money. All investments carry some form of risk and the loss of capital is generally a risk for any investment instrument.

**Company Risk:** When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.

**Credit Risk:** Credit risk can be a factor in situations where an investment's performance relies on a borrower's repayment of borrowed funds. With credit risk, an investor can experience a loss or unfavorable performance if a borrower does not repay the borrowed funds as expected or required. Investment holdings that involve forms of indebtedness (i.e., borrowed funds) are subject to credit risk.

**Currency Risk:** Fluctuations in the value of the currency in which your investment is denominated may affect the value of your investment and thus, your investment may be worth more or less in the future. All currency is subject to swings in valuation and thus, regardless of the currency denomination of any particular investment you own, currency risk is a realistic risk measure. That said, currency risk is generally a much larger factor for investment instruments denominated in currencies other than the most widely used currencies (U.S. dollar, British pound, German mark, Euro, Japanese yen, French franc, etc.).

**Defensive Strategy Risk:** Defensive strategies are primarily used to mitigate potential losses during periods of high volatility or economic uncertainty and aimed at reducing exposure volatility highly correlated with the equity market. Our goal is simply to help our clients achieve their financial goals, regardless of market conditions. If our firm forecasts a prolonged and substantial downturn for the equity markets, it may adopt a defensive strategy for clients' growth allocation by investing substantially in money market securities and/or short-term fixed income securities. There can be no guarantee that our firm will accurately forecast any prolonged and substantial downturn in the equity markets, or that the use defensive techniques would be successful in avoiding losses. The use of defensive strategies could result in a negative outcome for a client. A few negative consequences could be high turnover, re-entry in the same security at a higher price, loss of growth if the equity markets move up, high tax liability within taxable accounts and higher trading cost.

**Economic Risk:** The prevailing economic environment is important to the health of all businesses. Some companies, however, are more sensitive to changes in the domestic or global economy than others. These types of companies are often referred to as cyclical businesses. Countries in which a large portion of businesses are in cyclical industries are thus also very economically sensitive and carry a higher amount of economic risk. If an investment is issued by a party located in a country that experiences wide swings from an economic standpoint or in situations where certain elements of an investment instrument are hinged on dealings in such countries, the investment instrument will generally be subject to a higher level of economic risk.

**Equity (Stock) Market Risk:** Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.

**ETF & Mutual Fund Risk:** When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.

**Financial Risk:** Financial risk is represented by internal disruptions within an investment or the issuer of an investment that can lead to unfavorable performance of the investment. Examples of financial risk can be found in cases like Enron or many of the dot-com companies that were caught up in a period of extraordinary market valuations that were not based on solid financial footings of the companies.

**Fixed Income Securities Risk:** Typically, the values of fixed-income securities change inversely with prevailing interest rates. Therefore, a fundamental risk of fixed-income securities is interest rate risk, which is the risk that their value will generally decline as prevailing interest rates rise, which may cause your account value to likewise decrease, and vice-versa. How specific fixed income securities may react to changes in interest rates will depend on the specific characteristics of each security. Fixed-income securities are also subject to credit risk, prepayment risk, valuation risk, and liquidity risk. Credit risk is the chance that a bond issuer will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of a bond to decline.

**Foreign Exposure Risk:** Our firm may have exposure to foreign markets, including emerging markets, which can be more volatile than the U.S. markets. As a result, returns and net asset value may be affected to a large degree by fluctuations in currency exchange rates or political or economic conditions in a particular country. Any investments in emerging market countries may involve risks greater than, or in addition to, the risks of investing in more developed countries.

**Growth Securities Risk:** Securities of companies perceived to be "growth" companies may be more volatile than other stocks and may involve special risks. The price of a "growth" security may be impacted if the company does not realize its anticipated potential or if there is a shift in the market to favor other types of securities.

**Higher Trading Costs:** For any investment instrument or strategy that involves active or frequent trading, you may experience larger than usual transaction-related costs. Higher transaction-related costs can negatively affect overall investment performance.

**Inflation Risk:** Inflation risk involves the concern that in the future, your investment or proceeds from your investment will not be worth what they are today. Throughout time, the prices of resources and end-user products generally increase and thus, the same general goods and products today will likely be more expensive in the future. The longer an investment is held, the greater the chance the proceeds from that investment will be worth less in the future than what they are today. Said another way, a dollar tomorrow will likely get you less than what it can today.

**Interest Rate Risk:** Certain investments involve the payment of a fixed or variable rate of interest to the investment holder. Once an investor has acquired or has acquired the rights to an investment that pays a particular rate (fixed or variable) of interest, changes in overall interest rates in the market will affect the

value of the interest-paying investment(s) they hold. In general, changes in prevailing interest rates in the market will have an inverse relationship to the value of existing, interest paying investments. In other words, as interest rates move up, the value of an instrument paying a particular rate (fixed or variable) of interest will go down. The reverse is generally true as well. Importantly, the longer the duration of the interest-paying investment typically the higher risk/sensitivity to rising rates

**Legal/Regulatory Risk:** Certain investments or the issuers of investments may be affected by changes in state or federal laws or in the prevailing regulatory framework under which the investment instrument or its issuer is regulated. Changes in the regulatory environment or tax laws can affect the performance of certain investments or issuers of those investments and thus, can have a negative impact on the overall performance of such investments.

**Liquidity Risk:** Certain assets may not be readily converted into cash or may have a very limited market in which they trade. Thus, you may experience the risk that your investment or assets within your investment may not be able to be liquidated quickly, thus, extending the period of time by which you may receive the proceeds from your investment. Liquidity risk can also result in unfavorable pricing when exiting (i.e., not being able to quickly get out of an investment before the price drops significantly) a particular investment and therefore, can have a negative impact on investment returns.

**Manager Risk:** There is always the possibility that poor security selection will cause your investments to underperform relative to benchmarks or other funds with a similar investment objective.

**Market Risk:** The value of your portfolio may decrease if the value of an individual company or multiple companies in the portfolio decreases or if our belief about a company's intrinsic worth is incorrect. Further, regardless of how well individual companies perform, the value of your portfolio could also decrease if there are deteriorating economic or market conditions. It is important to understand that the value of your investment may fall, sometimes sharply, in response to changes in the market, and you could lose money. Investment risks include price risk as may be observed by a drop in a security's price due to company specific events (e.g., earnings disappointment or downgrade in the rating of a bond) or general market risk (e.g., such as a "bear" market when stock values fall in general). For fixed-income securities, a period of rising interest rates could erode the value of a bond since bond values generally fall as bond yields go up. Past performance is not a guarantee of future returns.

**Market Timing Risk:** Market timing can include high risk of loss since it looks at an aggregate market versus a specific security. Timing risk explains the potential for missing out on beneficial movements in price due to an error in timing. This could cause harm to the value of an investor's portfolio because of purchasing too high or selling too low.

**Mid-Sized Companies Risk:** Investments in securities issued by mid-sized companies may involve greater risks than are customarily associated with larger, more established companies. Securities issued by mid-sized companies tend to be more volatile than securities issued by larger or more established companies and may underperform as compared to the securities of larger companies.

**Money Market Risk:** An investment in a money market fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.

**Operational Risk:** Operational risk can be experienced when an issuer of an investment product is unable to carry out the business it has planned to execute. Operational risk can be experienced as a result of human failure, operational inefficiencies, system failures, or the failure of other processes critical to the business operations of the issuer or counter party to the investment.

**Options Risk:** Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks. Many options can expire worthless.

**Past Performance:** Charting and technical analysis are often used interchangeably. Technical analysis generally attempts to forecast an investment's future potential by analyzing its past performance and other related statistics. In particular, technical analysis often times involves an evaluation of historical pricing and volume of a particular security for the purpose of forecasting where future price and volume figures may go. As with any investment analysis method, technical analysis runs the risk of not knowing the future and thus, investors should realize that even the most diligent and thorough technical analysis cannot predict or guarantee the future performance of any particular investment instrument or issuer thereof.

**Preferred Securities Risk:** Preferred Securities such as the preferred stock underlying this strategy have similar characteristics to bonds in that preferred securities are designed to make fixed payments based on a percentage of their par value and are senior to common stock. Like bonds, the market value of preferred securities is sensitive to changes in interest rates as well as changes in issuer credit quality. Preferred securities, however, are junior to bonds with regard to the distribution of corporate earnings and liquidation in the event of bankruptcy. Preferred securities that are in the form of preferred stock also differ from bonds in that dividends on preferred stock must be declared by the issuer's board of directors, whereas interest payments on bonds generally do not require action by the issuer's board of directors, and bondholders generally have protections that preferred stockholders do not have, such as indentures that are designed to guarantee payments – subject to the credit quality of the issuer – with terms and conditions for the benefit of bondholders. In contrast preferred stocks generally pay dividends, not interest payments, which can be deferred or stopped in the event of credit stress without triggering bankruptcy or default. Another difference is that preferred dividends are paid from the issue's after-tax profits, while bond interest is paid before taxes.

**Small-Sized Companies Risk:** Investments in securities issued by small-sized companies, which tend to be smaller, start-up companies offering emerging products or services, may involve greater risks than are customarily associated with larger, more established companies. Securities issued by small-sized companies tend to be more volatile and somewhat more speculative than securities issued by larger or more established companies and may underperform as compared to the securities of larger companies.

**Strategy Risk:** There is no guarantee that the investment strategies discussed herein will work under all market conditions and each investor should evaluate his/her ability to maintain any investment he/she is considering in light of his/her own investment time horizon. Investments are subject to risk, including possible loss of principal.

## **Item 9: Disciplinary Information**

As a Registered Investment Advisor, CAPSTONE Investment Group, LLC is required to disclose any facts regarding legal or disciplinary events that would be material to an evaluation of CAPSTONE or the integrity of CAPSTONE's management. To date there have been no formal industry actions against CAPSTONE. Should such an event occur, CAPSTONE management will update our firm brochure and other sources as required by such regulatory authority.

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

Some CAPSTONE IARs and management persons are Registered Representatives of Private Client Services (PCS), a FINRA member broker/dealer and SEC Registered Investment Advisor. IARs, from time to time, refer clients to PCS for brokerage services. This is a conflict as the IAR will receive commission for trades placed in their separate capacity as Registered Representatives of PCS. The IAR and CAPSTONE will always act in the best interest of the client when recommending brokerage services.

From time to time, IARs of CAPSTONE are invited by fund companies or third-party managers to annual marketing, due diligence, or compliance conferences. The purpose of these events is to develop and improve the advisor's practices and industry knowledge by providing education, marketing, and compliance information. The retail value of these events can exceed several thousand dollars and are paid by the third-party investment advisors or fund companies used to manage client assets. Additionally, marketing assistance in the form of sales and seminar support and client prospecting data is made available to participating advisors.

Additionally, IARs of CAPSTONE are typically licensed as life insurance agents. Where there is occasion for use of life insurance as an income replacement for beneficiaries or as an estate planning tool, IARs receive a commission for selling such products in their separate capacity as insurance agents, which is a conflict as the IAR has additional incentive to recommend insurance products for which the IAR receives a commission. Also, fixed or fixed indexed annuities may be used as living benefit investment alternatives and CAPSTONE IARs receive a commission, which is also a conflict. CAPSTONE insurance licensed IARs typically spend less than 2% of their time on such activities and will always act in the best interest of the client. Clients are under no obligation to purchase recommended insurance products from the CAPSTONE IAR.

Sandra K. Drennon, owner of Capstone Investment Group, LLC, also owns an interest in Capstone Trust, an independent Washington State trust company. Capstone Trust provides Trust administration for estates, trustee services and can settle estates. Steven Elliott serves as President of Capstone Trust and Sandra K. Drennon as Treasurer. REMOVE and Patrick McClelland as Secretary. Drennon spends limited time on Capstone Trust.

Sandra K. Drennon is a co-member of Drennon Maintenance and Repair, LLC.

CAPSTONE will, from time to time, offer outside money management services to clients. It is not CAPSTONE's policy to offer such third-party management services without that manager having first filed and/or been approved to do business in the State where the client resides.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions, Personal Trading**

As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. Our fiduciary duty is the underlying principle for our Firm's Code of Ethics, which includes procedures for personal securities transaction and insider trading. Our firm requires all representatives to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment with our firm, and at least annually thereafter, all representatives of our firm will acknowledge receipt, understanding and compliance with our Firm's Code of Ethics. Our firm and representatives must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. If a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

Our firm recognizes that the personal investment transactions of our representatives demands the application of a Code of Ethics with high standards and requires that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, our firm also believes that if investment goals are similar for clients and for our representatives, it is logical, and even desirable, that there be common ownership of some securities.

In order to prevent conflicts of interest, our firm has established procedures for transactions effected by our representatives for their personal accounts. In order to monitor compliance with our personal trading policy, our firm has pre-clearance requirements and a quarterly securities transaction reporting system for all our representatives.

CAPSTONE has a developed Code of Ethics to which each Financial Advisor must receive and pledge to adhere to. In general, the Code of Ethics requires that Financial Advisors have a duty of confidentiality, honesty, independent thinking, declaring all personal stock holdings, and placing your interest first. To obtain a copy of the CAPSTONE Code of Ethics call 360-570-9888.

If you open an account with Private Client Services, an affiliated company, any trades may generate commissions and revenue for Private Client Services and the Financial Advisor as a Registered Financial Advisor of Private Client Services. It is the policy of Private Client Services to permit the firm, its employees, and Financial Advisors to buy, sell, and hold the same securities that the Financial Advisor also recommends to clients. It is acknowledged and understood that Private Client Services performs investment services for various clients with varying investment goals and risk profiles. As such, the investment advice may differ between clients. CAPSTONE will have no obligation to recommend for purchase or sale a security which CAPSTONE, its principals, affiliates, employees, or Financial Advisors may purchase, sell, or hold.

When a decision is made to trade a security from all applicable accounts, priority is typically given to the client's orders, although there are no internal trading rules that state the client orders must be before or after trades of a Financial Advisor. This may result in different execution prices for the client that may be higher or lower than the price received or paid by the Financial Advisor, though where possible trading preference and order of priority will first be given to the client.

## **Item 12: Brokerage Practices**

Clients of CAPSTONE will generally be assigned to a single broker/dealer firm by CAPSTONE, such as our affiliation with Private Client Services. As such, traditional brokerage account securities transactions are cleared through Pershing, LLC. CAPSTONE is not affiliated with Pershing, LLC. CAPSTONE also recommends SEI and TD Ameritrade Institutional, a division of TD Ameritrade, Inc. Member FINRA/SIPC ("TD Ameritrade"). TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer.

For reasons of economy, familiarity, administration, and reasons noted previously, CAPSTONE tends to recommend certain custodial locations for Advisor clients. The criteria used by CAPSTONE for suggesting a specific custodian includes, but is not limited to, reasonableness of commission, ability to trade many client positions at once (block trading), receive duplicate confirms, other costs of trading, the ability to facilitate trades, access to client records, computer trading support and other operational considerations, which may be a benefit to CAPSTONE or the Financial Advisor, but not necessarily to you. The custodians used for advisory services through CAPSTONE are TD Ameritrade Institutional and Interactive Brokers. CAPSTONE is not affiliated with TD Ameritrade Institutional or Interactive Brokers. CAPSTONE may receive referrals from custodians and clearing firms for Investment Advisor Financial Advisors or Registered Financial Advisors who may become registered with CAPSTONE and/or Private Client Services, and independent broker/dealer.

When an account is opened at Pershing, LLC, trades and holdings may generate commissions and ongoing revenues for Private Client Services and the Financial Advisor acting in a Registered Financial Advisor capacity. Clients or Financial Advisors may call trades into the trading desk of Pershing, LLC, which is an order-taking service offered as a convenience to Financial Advisors and clients. Additionally, some clients hold investments at various institutions directly. In that event, the Financial Advisor may include those assets on the advisory billing. Nearly all clearing firms/custodians provide research reports on products, either from proprietary research or on a contracted basis. Additionally, custodians/brokerage firms may provide CAPSTONE with free software and internet access to the account information. User support is also available to CAPSTONE at no charge. Financial Advisors approved by the clearing firms/custodians may use the research and services for all clients, and a higher commission is not charged for using the same. Some custodians provide or reimburse Financial Advisors with software for reporting, fee-billing, data consolidation, and marketing assistance. In the event a client directs CAPSTONE and the Financial Advisor to use a particular broker/dealer, the Financial Advisor may not be able to obtain a more favorable commission and may not be able to obtain volume discounts or best execution. In addition, under these circumstances a disparity in commission charges may exist in the commissions charged to clients who direct the Financial Advisor to use a particular broker or dealer. When possible, Financial Advisors utilize the process of aggregation or block trading of client transactions. This allows the Financial Advisor to execute transactions in a more timely, equitable, and efficient manner and seeks, but does not guarantee, a reduction of overall commission charges. CAPSTONE's policy is to aggregate client transactions where possible and when advantageous to clients but is not ensured for all clients' transactions.

#### **Item 13: Review of Accounts**

Management personnel or financial advisors review accounts on at least a quarterly annual basis for our clients with actively managed portfolios as agreed to by CAPSTONE and client. The nature of these reviews is to learn whether client accounts are in-line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. Triggers for reviews could include economic or market activity, life changes indicated by the client, client requests, or other factors. While annual reviews are our minimum, Capstone typically desires semi-annual, tri-annual or quarterly reviews.

We ask that you immediately contact your Financial Advisor if any material changes occur in your personal financial situation, such as a loss of a job, illness, inheritance, or any other factor that could materially change your investment objectives and/or risk tolerance. Our firm may review client accounts more frequently than described above. Clients may request other reviews as the personal circumstances dictate.

Financial Advisor activities are reviewed and supervised by CAPSTONE. Reviews are conducted on a quarterly basis and may be completed by the Chief Compliance Officer, Partners or administrative associates. The review includes an audit of the fee billing charges and general activities or transactions of the accounts.

Reports are not distributed to clients. For questions on supervision of Financial Advisors, please call our office at 360- 570-9888.

Additionally, you will receive at minimum monthly reports from the custodian to help you review and track your account activities. In most cases, you are provided electronic access to review your accounts.

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

As noted in the Other Financial Industry Activities and Affiliations section above, CAPSTONE and the Financial Advisors may receive compensation through the following arrangements:

- Financial Planning Fees
- Fees for Investment Management Services
- Referring clients to a third-party manager or asset management platform
- Invitation to marketing, due diligence, or compliance conferences
- Sales and seminar support and client prospecting data to help the Financial Advisor's marketing efforts
- Invitations to participate on advisory councils, investment committees, or incentive clubs
- Invitations to reward or marketing events and trips
- Commissions and/or fees paid through Private Client Services on securities products
- Additional Services
- Interest Income and/or other revenue sources

Financial Advisors who have solicited for Investment Managers prior to joining CAPSTONE may have clients with Investment Managers for which CAPSTONE does not have a selling agreement. Their clients will remain with these Investment Managers with fees paid to CAPSTONE if CAPSTONE secures a selling agreement with such Manager. However, if CAPSTONE is unwilling or unable to secure an agreement with such Manager, then CAPSTONE will not collect fees nor will the capacity to service the account by CAPSTONE Financial Advisors be available. Additionally, CAPSTONE offers a platform where a CAPSTONE Financial Advisor may join another Financial Advisor to provide advisory services for clients. In such cases, total payment to CAPSTONE is disclosed on the Advisory Agreement.

CAPSTONE participates in the institutional advisor program (the "Program") offered by TD Ameritrade. TD Ameritrade offers to independent investment advisor services which include custody of securities, trade execution, clearance and settlement of transactions. CAPSTONE receives some benefits from TD Ameritrade through its participation in the Program.

As part of the Program, CAPSTONE may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between CAPSTONE's participation in the Program and the investment advice it gives to its clients, although CAPSTONE receives economic benefits through its participation in the Program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving CAPSTONE participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have CAPSTONE's fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to CAPSTONE by third party vendors. TD Ameritrade may also pay for business consulting and professional services received by CAPSTONE's related persons. Some of the products and services made available by TD Ameritrade through the Program may benefit CAPSTONE but may not benefit its client accounts. These products or services may assist CAPSTONE in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help CAPSTONE manage and further develop its business enterprise. The benefits received by CAPSTONE or its personnel through participation in the Program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, CAPSTONE endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by CAPSTONE or its related persons in and of itself creates a conflict of interest and may indirectly influence the CAPSTONE's choice of TD Ameritrade for custody and brokerage services.

### **Referral Fees**

CAPSTONE may, via written arrangement, retain third parties to act as solicitors for CAPSTONE's investment



management services. All compensation with respect to the foregoing will be fully disclosed to each client to the extent required by applicable law. CAPSTONE will ensure each solicitor is properly registered in all appropriate jurisdictions. CAPSTONE does not compensate any person who is not a CAPSTONE employee for client referrals unless they are a licensed Solicitor for CAPSTONE. CAPSTONE will ensure that the compensated person will be properly registered as a solicitor and follow CCR 260.236(c)(2) requirements.

#### **Item 15: Custody**

Custody of account assets will be maintained with the custodian and not by CAPSTONE. An exception to this is the ability to electronically debit advisory fees with your express permission granted in the Advisory Agreement. The custodian will deliver, normally monthly but at least quarterly, a statement showing all transactions occurring in the account during the period covered by the account statement and the funds, securities, and other property in the account at the end of the period. CAPSTONE and the Financial Advisor will rely on the custodian to present values based upon information provided by the issuer of that security or other nationally recognized source as reported by the custodian. It is important for you to carefully review the statement and our listed fees from the custodian on a regular basis. You understand that investments without an active trading market, such as direct participation programs, are highly illiquid, and the amounts shown on the statements will not accurately reflect the current liquidation value. With these investments any stated value on the custodian statement should not be used for determining the present value of the asset.

Additionally, and in specific relationship to Capstone Trust, CAPSTONE Investment Group, LLC is deemed to have custody of Capstone Trust accounts as defined by SEC guidelines due, at least in part, to the two firms being related in ownership. Sandra K. Drennon, as owner of Capstone Investment Group, LLC is also an owner of Capstone Trust. CAPSTONE Investment Group, LLC does NOT serve as the exclusive investment advisor to all Capstone Trust accounts. Where applicable, CAPSTONE Investment Group, LLC is held to the same custodial standards of care for Capstone Trust accounts as any other custodian would be, including: holding, directly or indirectly client funds or securities, or having any authority to obtain possession of them in connection with advisory services provided to Capstone Trust clients. Custody is further defined as any arrangement (including a general power of attorney) under which we are authorized or permitted to withdraw client funds or securities maintained with a custodian upon our instruction to the custodian; and; any capacity (such as general partner of a limited partnership, managing member of a limited liability company or a comparable position for another type of pooled investment vehicle, or trustee of a trust) that gives us or our supervised person legal ownership of, or access to, client funds or securities.

#### **Item 16: Investment Discretion**

When written authorization is provided by the client, Financial Advisors of CAPSTONE have discretionary trading authority on accounts. The written authority is noted within the client's Advisory Agreement. By granting investment discretion, our firm is authorized to execute securities transactions, determine which securities are bought and sold, and the total amount to be bought and sold.

You may also have the option to enter into a non-discretionary Advisory Agreement with CAPSTONE if you do not want to grant discretionary trading authority to your Financial Advisor. In the event the Financial Advisor refers the client to a third-party money manager, the discretionary authority will be granted through the advisory contract signed with the respective money manager.

#### **Item 17: Voting Client Securities (Proxy Voting)**

Clients agree that CAPSTONE Investment Group, LLC will **not** vote any proxy for securities held in the client's managed account(s), but may assist in helping clients better understand the issue(s) before them.

**Item 18: Financial Information**

Our firm is not required to provide financial information in this Brochure because:

- Our firm does not require the prepayment of more than \$1,200 in fees when services cannot be rendered within 6 months.
- Our firm does not take custody of client funds or securities.
- Our firm does not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients.

Our firm has never been the subject of a bankruptcy proceeding.