

## Item 1: Cover Page

### **Part 2A of Form ADV Firm Brochure**

September 19, 2022

#### **Sherman Portfolios, LLC**

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This brochure provides information about the qualifications and business practices of Sherman Portfolios, LLC. If you have any questions about the contents of this brochure, please contact us at 800-634-2008. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

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

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary. At this time there are no material changes to disclose.

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## Item 4: Advisory Business

### A. Ownership/Advisory History

Sherman Portfolios, LLC ("SPL" or the "firm") is an investment advisor registered with the United States Securities and Exchange Commission ("SEC"). SPL is a limited liability company formed in 2022 under the laws of the State of Idaho. SPL is owned and controlled by Pinkerton Investments, Inc., and Pinkerton Family Heritage LP.

### B. Advisory Services Offered

SPL provides services to its Sherman Advisor Group Experience (SAGE) members, a select group of independent investment advisors and firms who provide services to individual investors and institutions. SAGE members receive consulting guidance, research and analytical tools necessary to address their clients' strategic planning, portfolio structure, manager due diligence and performance measurement requirements, and access to educational forums as resources to support the SAGE member's continuing education.

SPL provides two primary lines of fee-generating services to SAGE members:

- *Turnkey Asset Management Program ("TAMP")* – Under the TAMP, the Investment Advisor develops a basic plan to allocate client assets, and selects one or more of the Sherman model portfolios. The SPL TAMP is a collection of model portfolios made available to investment professionals through a single platform. The goal of the SPL TAMP is to make investing client assets more streamlined and efficient. For example, if a client wants to invest with five different model portfolios, instead of opening five separate accounts – one direct in each model portfolio – the client can open one unified account through the TAMP and hold all of five model portfolios within one account.
- *Portfolio Signals* – SPL provides portfolio signals on a daily basis, or as triggered, to its SAGE members, who then typically utilize these signals to manage their own Sherman model portfolios.

### C. Client-Tailored Services and Client-Imposed Restrictions

Clients may impose reasonable restrictions on the management of their accounts—for example, restricting the type or amount of security to be purchased in the portfolio.

### D. Wrap Fee Programs

SPL does not participate in wrap fee programs, where brokerage commissions and transaction costs are included in the asset-based fee charged to the client.

## **E. Client Assets Under Management**

As of July 15, 2022, SPL had \$0 of discretionary assets under management, and \$0 of assets under advisement.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### Model Provider Fees

For clients who retain the firm to provide model portfolio consulting services, SPL's fee schedule is computed on the basis of the market value of the client's portfolio assets, payable either in arrears or advance, and computed on the last business day of the preceding quarter.

- *TAMP* – The maximum annual fee, which is negotiable, is 2%, billed quarterly or monthly at 1/4th or 1/12th that rate respectively.
- *Portfolio Signals* – The maximum annual fee, which is negotiable, is 65 basis points, billed quarterly or monthly at 1/4th or 1/12th that rate respectively.

#### Sub-advisor Fees

For clients who also retain the firm to provide portfolio management services, SPL's fee schedule is computed on the basis of the market value of the client's portfolio assets, payable either in arrears or advance, and computed on the last business day of the preceding quarter. The maximum quarterly fee is 1%, which is negotiable, and is charged at one-fourth the annual rate.

For investment management services, SPL generally imposes a minimum account size of \$5,000 for all models portfolios. The account minimum may be waived by the firm in its sole discretion.

Investment management and or consulting fees are always subject to the contractual arrangement between the client and SPL. Fees may be charged quarterly in arrears or advance depending on the sub-adviser agreement. The third-party investment adviser will compute the fees due SPL on a quarterly basis and remit such fees to SPL. The initial quarterly fee is payable on the date the account is accepted and is computed on the market value of such portfolio assets on the date of such account acceptance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter.

Sub-advisory and consulting agreements have an initial one-year term; thereafter they may be canceled by either party upon 60 days' prior written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be immediately due and payable.

### B. Client Payment of Fees

SPL may be paid either directly by the third-party investment adviser pursuant to the terms of the written agreement between SPL and the third-party investment adviser, or by directly debiting the client's custodian account as described below.

To the extent that the third-party investment adviser directs SPL to directly debit fees from their client's custodian account, SPL will do so provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a

statement, at least quarterly, indicating all amounts disbursed from the account. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying SPL or their custodian in writing.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **C. Additional Client Fees Charged**

The fees charged by SPL do not include fees charged by the client's third-party investment adviser, exchange-traded funds, or any broker-dealer or custodian selected by the client. In the case of an exchange-traded fund, fees and charges are disclosed in the respective fund's prospectus. Clients are advised to read these materials carefully before investing.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

### **D. Prepayment of Client Fees**

Depending on the terms of the contractual arrangement, SPL may be paid in advance for its investment advisory services. Sub-advisory and consulting agreements have an initial one-year term; thereafter they may be canceled by either party upon 60 days' prior written notice. Upon termination of any account, any unearned, prepaid fees will be promptly refunded, and any earned, unpaid fees will be immediately due and payable.

### **E. External Compensation for the Sale of Securities to Clients**

Other than as disclosed in Item 10 of this Brochure, SPL's financial advisors are compensated solely through salary and bonus. SPL is not paid any sales, service, or administrative fees for the sale of investment products.

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

SPL does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.



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

SPL is an independent investment management firm providing consulting and asset management services as a sub-adviser to various third-party investment advisers, which then offer such model portfolios to their clients.

For investment management services, SPL generally imposes a minimum account size of \$5,000 for all model portfolios. The account minimum may be waived by the firm in its sole discretion.

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

### **A. Methods of Analysis and Investment Strategies**

SPL's methods of analysis generally relies on technical analysis but may include fundamental analysis, quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. SPL may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

For information on a specific fund's risks, strategies, fees, and other pertinent information, please obtain and review a copy of the applicable fund prospectus.

#### **Exchange-Traded Funds**

SPL utilizes exchange-traded funds in its model portfolios. A description of the criteria to be used in formulating an investment recommendation for exchange-traded funds is set forth below.

SPL has or may form relationships with third party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of mutual funds and exchange-traded funds
- perform billing and certain other administrative tasks

#### **Material Risks of Investment Instruments – Exchange-Traded Funds**

SPL may invest in ETFs (which may, in turn, invest in equities, bonds and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional

volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

## **B. Investment Strategy and Method of Analysis Material Risks**

### **SPL Model Portfolio Strategies**

SPL offers a customized and individualized investment program for clients. A specific asset allocation strategy is crafted to focus on the specific client's goals and objectives. SPL offers the following strategies:

- *Active Portfolios (A20-A100)* – Portfolios of high quality actively managed non-transaction-fee (NTF) funds requiring a score of at least 8 out of 12 on our proprietary scoring methodology. Portfolios range from 100% equity to 20% equity/80% fixed income allocations.
- *Passive Portfolios (P20-P100)* – Portfolios of high quality passive (index focused) funds requiring a score of at least 8 out of 12 on our proprietary scoring methodology. Portfolios range from 100%/0% fixed income equity to 20% equity/80% fixed income allocations.
- *GTS* – Index focused ETF portfolio based on our Global Indexed Trend Tracking Strategy (GITTS), which utilizes proprietary moving averages to determine best opportunities to be invested in the market or in cash/short-term bonds.
- *MGT (Momentum Growth TrendTracker)* – Momentum-based tactical model with a focus on wide moat companies trading at a discount. Utilizes cash and short-term bonds during bear markets.
- *HDT (High Dividend TrendTracker)* – Growth & Income model by investing in high-dividend paying, primarily blue-chip stocks, and can include dividend paying mid-cap, international and real estate stocks with a 10-year history of stable or growing dividends. Utilizes cash and short-term bonds during bear markets.
- *IGP (Income & Growth Portfolio)* – Tactical portfolio consisting of high-quality mutual funds when fully invested, and moves to cash/short-term bonds when long-term market momentum turns negative.
- *TGP (Tactical Growth Portfolio)* – The TGP invests 57% in the PRS Bull/Seasonal Strategy and 43% in the PRS Speedometer Strategy. Both of these strategies are fully invested in equities as the markets are advancing, and are fully invested in bonds, cash, and limited strategic equity exposure when in protection mode.
- *TDP (Tactical Defensive Portfolio)* – The TDP portfolio invests defensively for income and growth as well as capital preservation. The TDP is diversified potentially in bonds, gold, equities, and cash.
- *Tactical Bond Strategy* – When both the long-term and short-term trend indicators are positive (Risk On), the Tactical Bond Portfolio is 100% invested in Corporate Bonds.

When either the long-term or short-term indicator is negative (Risk Off), the Tactical Bond Portfolio is 100% invested in 7-10year US Treasury Bonds.

- *GEM (Gold/Equity Momentum Portfolio)* – The GEM has a goal of identifying and investing in uptrends in gold ETF's versus equity ETF's.

The following model portfolios are managed utilizing proprietary research and indicators that are exclusive to SPL methodologies, and are primarily invested in ETFs and individual stocks:

Harmony Level 1	Long/Cash
Harmony Level 2	Long/Cash Sector Rotation II option
Harmony Level 3	Long/Short
Harmony Level 4	Long/Short Sector Rotation II option
Star Min/Max 10/30	Multi-Sector Bond
Star Min/Max 20/60	Optimum Bond
Star Min/Max 30/90	Gold or Bull/Calendar
Star Min/Max 0/100	Gold or Optimum Bond
Bull/Bear without BOSS	Gold or Sector Rotation II
Bull/Bear with BOSS	Risk-Managed Energy or Bull/Calendar
Buy/Replace without BOSS	Risk-Managed Energy or Optimum Bond
Buy/Replace with BOSS	Risk-Managed Energy or Sector Rotation II
Bull/Calendar without BOSS	Policy Level 1
Bull/Calendar with BOSS	Policy Level 2
Calendar Effects	Policy Level 3
Sector Rotation Standard	Policy Level 4
Sector Rotation Leveraged	Policy Level 5
Sector Rotation II	Breakaway Stocks

- *Harmony* – The Harmony Model uses a quantitative analysis-based identification of the current market condition: positive, neutral or negative. pre-selected model choices are then automatically applied to each market condition for each of four Levels shown, reflecting escalating levels of market exposure: Level 1, Level 2, Level 3, and Level 4. The market condition is determined by the number of the timeframe indicators that are positive. The three timeframe indicators are the short-term indicator, quarterly trend indicator, and bull/bear indicator. When all three are positive, the market condition is positive; when all three are negative, the market condition is negative; and when there is a mixture of positive and negative, the market condition is neutral. The Harmony Model will always consist of the investment tactics most appropriate for each market condition, for each of the four levels.
- *STAR Min/Max* – The Simple Trend And Rank ("STAR") Min/Max Model is a low-activity model designed for risk-managed outperformance over the long term. The model seeks

to be maximally invested in equities when equities are trending upwards, and minimally invested in equities when equities are trending downwards. The STAR Min/Max Model portfolio is reallocated quarterly. The trend measurements used by the model are intermediate to longer-term (months to quarters timeframe).

At the start of each quarter, if equities (either domestic or international) are in an uptrend, then equities are assigned the maximum allocation for the quarter. However, if both domestic and international equities are in downtrends, then equities are assigned the minimum allocation for the quarter. The equity portion of the portfolio consists of equal allocations to the Type 1 and Type 2 asset classes from the Asset Class Ranking Table's "Above Average - best for new positions" group. The fixed income portion of the portfolio is a broad-based bond index fund, such as the Vanguard Total Bond Market Index Funds "VBMFX" and "VBTLX", or the ETFs "BND" and "AGG". If the fixed income/bond asset class is in a bear market state, the fixed income portion is kept in cash/money market.

- **Bull/Bear** – The Bull/Bear Model is a longer-term low-activity Model whose goal is to be invested in equities (mostly U.S.) during bull markets and in fixed income during bear markets. Activity occurs when a new bull market or bear market is signaled by the bull-bear indicator, and on quarterly intervals withing ongoing bull markets.

During bull markets, equal allocations to the Type 1 and Type 2 assets classes from the Asset Class Ranking Table's "Above Average – best for new positions" group. During bear markets, 100% allocation to a bond index fund, or cash if bonds are also in bear status.

- **Buy/Replace** – The original Buy/Replace Model is continuously invested in the Preferred Type 1 and Type 2 asset class selections. The model's selections are revisited quarterly for potential additions or deletions. With no risk management, the Buy/Replace Model is an alternate to buy-and-hold of popular market indices. The Buy/Replace with BOSS Model adds a market exposure component with the BOSS Indicator, or "Balance of Strength Signal." BOSS will change to "Out of Market" status when cash rises in comparison to a group of 16 styleboxes and sectors, using our exclusive adaptation of the MAD® (Moving Average Distance) method of comparison. BOSS returns to "In the Market" status when cash falls in that comparison. BOSS "Out of Market" periods can last anywhere from a few days to a few months and typically add from two to six extra trading days a year to the standard Buy/Replace Model.

Equal allocations to the Type 1 and Type 2 asset classes from the Asset Class Ranking Table's "Above Average - best for new positions" group. When the BOSS indicator is "Out of Market," the Buy/Replace + BOSS Model invests in a bond index fund, or cash if bonds are in bear status. The 16 market segments used by the BOSS indicator are: nine styleboxes, the Dow 30, the NASDAQ 100, the Russell 3000, Consumer Cyclical, Financials, Industrials, and Technology. The ranking of cash within this group is BOSS-specific.

- **Bull/Calendar** – The Bull/Calendar Model uses the Bull/Bear Model strategy during bull markets and the Calendar Effects Model strategy during bear markets. Bull and bear markets are determined by the Bull-Bear Indicator. The goal of this model is to be fully

invested in equities during the bull markets, and only exposed to the relatively few days with the highest probability of profit during bear markets. During bull markets, activity occurs on quarterly intervals. In bear markets, there are about 11 Calendar Effects trades per year. See the descriptions for Bull/Bear and Calendar Effects Models for more detail about each.

During bull markets, equal allocations to the Type 1 and Type 2 asset classes from the Asset Class Ranking Table's "Above Average – best for new positions" group. During bear markets, Calendar Effects trade positions are determined at the time of trade entry and are based on those asset classes which are judged to be the best performing at that time. The number of positions taken generally varies between one and three, and equal allocations are applied to each. Between Calendar Effects trades assets are kept in Money Market Funds or equivalent.

- *Calendar Effects* – The Calendar Effects Model is a shorter-term model whose goal is to be invested only during those short periods of time during the calendar year that have historically shown a high probability of profit. There are about 11 of these short periods per year, totaling just 72-75 market days of exposure per year.

Calendar Effects trade positions are determined at the time of trade entry, and are based on those asset classes which are judged to be the best performing at that time. The number of positions taken generally varies between one and three, and equal allocations are applied to each.

- *Sector Rotation* – The Sector Rotation Model is a risk-managed model which invests either in high-ranked US equity sectors, or in high-ranked bond sectors. At the start of each quarter a risk measurement is made to determine whether the model will invest in equity sectors or in bond sectors during that quarter. The Quarterly Trend Indicator is used for this purpose. When invested in equity sectors, a reallocation of the portfolio is made monthly; when invested in bond sectors, a reallocation of the portfolio is made quarterly.

At the start of each quarter, if equities (either domestic or international) are in an uptrend, then US equity sectors are selected for that quarter. If both domestic and international equities are in downtrends at that time, then the model selects bond sectors for investment for that quarter. Bond sector positions are taken from the Multi-Sector Bond Model, with quarterly reallocation. When US equity sectors are selected, the portfolio consists of equal allocations to the highest-ranked four sectors (all "Type 3"s + Basic Matls + Real Estate). Sectors ranked below "cash" are not eligible. Reallocation is monthly.

- *Sector Rotation II* – The Sector Rotation II Model is a shorter-term, higher-activity model designed to provide exposure to stock market sectors while limiting downside risk. Risk management is implemented by utilizing the longer-term Bull-Bear Indicator in conjunction with the multi-timeframe BOSS indicator. When both are positive, the Sector Rotation II Model is invested in the four top-ranked sectors. When either of the

indicators is negative, the model is invested using the Calendar Effects strategy, which reduces time-weighted market exposure by approximately 75%.

When both the Bull-Bear Indicator and the Balance of Strength Signal (BOSS) indicator are positive, the top four highest-ranked sectors are held with monthly reselection. When either the Bull-Bear indicator or the BOSS indicator is negative, the Sector Rotation II Model is 100% invested according to the Calendar Effects strategy. Other choices for risk management and for negative-period investments are available in the Portfolio Toolkit.

- *Long/Cash* – The Long/Cash Model is a shorter-term model whose goal is to be invested "long" during all intermediate-term uptrends in the U.S. market, and in the safety of cash during all shorter-term downtrends. Activity takes place when a portfolio is established at the inception of each shorter-term uptrend or downtrend.

When long, equal allocations to the Type 1 and Type 2 asset classes from the Asset Class Ranking Table's "Above Average - best for new positions" group. Optionally, use the selections from the Sector Rotation II Model when long.

- *Long/Short* – The Long/Short Model is a shorter-term model whose goal is to be invested "long" during all shorter-term uptrends in the U.S. market, and "short" during all shorter-term downtrends. Activity takes place when a portfolio is established at the inception of each shorter-term uptrend or downtrend.

When long, equal allocations to the Type 1 and Type 2 asset classes from the Asset Class Ranking Table's "Above Average - best for new positions" group. Optionally, use the selections from the Sector Rotation II Model. When short, a single inverse S&P 500 position is taken, like the ETF "SH" or the Mutual Funds "BRPIX" or "RYURX".

- *Multi-Sector Bond* – The Multi-Sector Bond Model is a continuously invested model that is reallocated quarterly. The portfolio members are selected from 18 wide-ranging bond sectors on the basis of their strength rankings. Equal allocations to the 2nd, 3rd, and 4th-ranked items from the Bond Ranking Table on the daily Global Asset Classes ETF Ranking Report. The top-ranked candidate is bypassed to avoid the mean-reversion tendency frequently experienced by the top-ranked candidate.
- *Optimum Bond* – The Optimum Bond Model is built on one of the most persistent phenomena of fixed income investing: that bonds issued by the US Treasury, backed by the full faith and credit of the US Government, are typically the best-performing fixed income assets in times of equity market distress, and that Corporate Bonds are typically the best-performing fixed income assets when the equity market is enjoying smooth sailing. The Optimum Bond Model takes advantage of this phenomenon by switching between US Treasury Bonds and Corporate Bonds based on the state of Sherman Sheet indicators that identify the condition of the equity market.

When both the U.S. Equities Bull-Bear Indicator and the Balance of Strength Signal (BOSS) indicator are positive, the Optimum Bond Model is 100% invested in Corporate Bonds. By default, the investment is 50% in Investment-Grade Corporate Bonds, and 50% in High-Yield Corporate Bonds. When either the U.S. Equities Bull-Bear Indicator or the



Balance of Strength Signal (BOSS) indicator is negative, the Optimum Bond Model is 100% invested in 7-10 year U.S. Treasury Bonds.

- *Risk-Managed Gold* – The Risk-Managed Gold Model is a longer-term low-activity model whose goal is to identify and invest in longer-term uptrends in Gold, while managing the risk of investing in this highly volatile commodity by identifying and avoiding its longer-term downtrends. Trends are identified by the proprietary Gold Trend Strength Indicator. When gold is in a downtrend, funds are invested productively in a non-gold model.

When the Risk-Managed Gold Model's Trend Strength Indicator is positive (above zero), 100% of funds are invested in shares of GLD, the leading gold-holding ETF. When the Gold Trend Strength Indicator is negative (below zero), 100% of funds are invested in the Bull/Calendar Model, the Optimum Bond model or the Sector Rotation II model. See the pages for those models for their positions.

- *Risk-Managed Energy* – The Risk-Managed Energy Model is a longer-term low-activity model whose goal is to identify and invest in longer-term uptrends in energy, while managing the risk of investing in this highly volatile market by identifying and avoiding its longer-term downtrends. Trends are identified by the proprietary Energy Trend Strength Indicator. When energy is in a downtrend, funds are invested in a non-energy model.

When the Risk-Managed Energy Model's Trend Strength Indicator is positive (above zero), 100% of funds are invested in shares of XLE, an energy sector ETF. When the Energy Trend Strength Indicator is negative (below zero), 100% of funds are invested in the Bull/Calendar Model, the Optimum Bond model or the Sector Rotation II model.

- *Policy* – Policy Portfolios are an easy-to-manage group of five portfolios suitable for the entire range of client risk profiles, providing a complete, diversified portfolio solution. Core and variable allocations are made to five different asset classes according to the Bull/Bear status of each asset class. Asset classes in bear status go to cash.

SPL will typically construct each client's account holdings using, but not necessarily limited to, no-load mutual funds, funds at NAV, equity positions, fixed income positions, alternative investments, municipal securities and U.S. government securities.

### **Leverage**

SPL does not utilize leverage in its managed portfolios.

### **Short-Term Trading**

Although SPL, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-velocity trading creates substantial transaction costs that in the aggregate could negatively impact account performance.



### **Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry and sector performance.

### **C. Concentration Risks**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

Neither SPL nor its affiliates, employees, or independent contractors are registered broker-dealers and do not have an application to register pending.

### **B. Futures or Commodity Registration**

Neither SPL nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **Pinkerton Retirement Specialists, LLC**

Pinkerton Retirement Specialists, LLC ("PRS") is an affiliate of SPL and a registered investment adviser. PRS manages individual separate accounts for its advisory clients. Prospective clients are advised that SPL has an economic interest in recommending its affiliate for separate account management. Conversely, PRS has an economic interest in recommending to its wealth management clients the sub-advised services of SPL. The receipt of compensation by SPL as a sub-adviser and PRS's collection of asset-based fees from its wealth management clients whose portfolio assets may include the affiliate manager constitute a conflict of interest. SPL clients may utilize the provider of their choice and are not obligated to utilize the SPL affiliate manager.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Other than as described in Item 10.C. above, SPL does not recommend separate account managers or other investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, SPL has adopted policies and procedures designed to detect and prevent insider trading. In addition, SPL has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of SPL's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the chief compliance officer of SPL. SPL will send clients a copy of its Code of Ethics upon written request.

SPL has policies and procedures in place to ensure that the interests of its clients are given preference over those of SPL, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

SPL does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, SPL does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase or Sale of Same Securities Recommended to Clients and Conflicts of Interest**

SPL, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase or sell the same securities as are purchased or sold for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which SPL specifically prohibits. SPL has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions

- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow SPL's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

SPL, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other SPL clients. SPL will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of SPL to place the clients' interests above those of SPL and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### Custodian Recommendations

SPL generally operates either as a sub-adviser or model provider to various third-party investment advisers. All custodian recommendations are provided by the investment adviser subscribing to the third-party investment adviser's investment platform. SPL uploads models to a third-party investment adviser platform, which effects the securities transactions through the platform sponsor's custodian.

SPL does not recommend custodians.

#### Soft Dollar Arrangements

SPL does not utilize soft dollar arrangements. SPL does not direct brokerage transactions to executing brokers for research and brokerage services.

#### Brokerage for Client Referrals

SPL does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

### B. Aggregating Securities Transactions for Client Accounts

#### Best Execution

SPL has discretionary authority to determine which securities are to be bought and sold, and the amount of such securities. SPL recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. SPL will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services

- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, SPL seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of SPL's knowledge, these custodians provide high-quality execution, and SPL's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, SPL believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

### **Security Allocation**

Since SPL may be managing accounts with similar investment objectives, SPL may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by SPL in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

SPL's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. SPL will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

SPL's advice to certain clients and entities and the action of SPL for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of SPL with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of SPL to or on behalf of other clients.

### **Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This

is true even if SPL believes that a larger size block trade would lead to best overall price for the security being transacted.

### **Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

SPL acts in accordance with its duty to seek best price and execution and will not continue any arrangements if SPL determines that such arrangements are no longer in the best interest of its clients.



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

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

SPL's portfolio manager reviews the model portfolios on at least a monthly basis.

### **B. Review of Client Accounts on Non-Periodic Basis**

SPL may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how SPL formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

Clients receive a quarterly letter and portfolio report. The report shows a summary of all managed accounts, a portfolio appraisal, a list of realized gains and/or losses, a performance summary, and a fee statement.

The end client will receive no less frequently than quarterly a statement from the custodian indicating holdings, transactions, and cash balance. The custodian is the official record of the client's account.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

Other than what is disclosed in Item 12 regarding benefits the firm receives from its custodian(s), SPL does not receive economic benefits for referring clients to third-party service providers.

### **B. Advisory Firm Payments for Client Referrals**

The firm may enter into agreements with Solicitors who will refer prospective subscribers to our subscription service in return for a portion of the ongoing subscription fee our firm collects. The receipt of such fees creates a conflict of interest in that the Solicitor is economically incited to recommend our services because of the existence of a fee sharing arrangement with our firm. Please be advised that the firm's payment of a referral fee to the Solicitor does not increase the client's subscription fee paid to the firm.

## Item 15: Custody

SPL does not take custody of client assets. Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in their accounts.

## **Item 16: Investment Discretion**

Under a sub-advised relationship, SPL will exercise discretion only with respect to the composition of its model portfolios, which generally means discretion with respect to the nature and type of securities to be purchased and sold, and the amount of securities for such transactions.

## Item 17: Voting Client Securities

SPL does not take discretion with respect to voting proxies on behalf of its clients. All proxy material will be forwarded to the client by the client's custodian for the client's review and action.

SPL will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of SPL supervised and/or managed assets. In no event will SPL take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, SPL will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. SPL has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. SPL also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, SPL has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where SPL receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

SPL does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

SPL does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There are no bankruptcy petitions to report.