

# Founders Capital Management, Inc.

4400 Post Oak Parkway  
Suite 2530  
Houston, TX 77027

## **Methods of Analysis, Investment Strategies and Risk of Loss**

FCMI's Investment Committee is comprised of James L. Walter and Will R. Oliver. Messrs Walter and Oliver are responsible for account management. FCMI uses research reports on economic conditions, industry groups and specific investments from brokerage and research firms. The Investment Committee works together to conduct fundamental analysis on all securities recommended for client accounts. This analysis varies depending on the security in question. For stocks and bonds, the analysis generally includes a review of:

- The issuer's management;
- The amount and volatility of past profits or losses;
- The issuer's assets and liabilities, as well as any material changes from historical norms;
- Prospects for the issuer's industry, as well as the issuer's competitive position within that industry; and
- Any other factors considered relevant.

For mutual funds and ETFs the analysis generally includes a review of:

- The fund's management team;
- The fund's historical risk and return characteristics;
- The fund's exposure to sectors and individual issuers;
- The fund's fee structure; and
- Any other factors considered relevant.

The Investment Committee meets regularly to discuss existing and prospective investments. Investments are evaluated independently, as well as in the context of clients' existing holdings and sector exposures.

FCMI primarily invests for relatively long-term horizons, often for a year or more. However, market developments could cause FCMI to sell securities more quickly.

Depending on a client's investment objectives, FCMI might engage in short selling or option writing. The use of short selling and option writing poses additional risks that are discussed in detail with any clients who are considering the use of these investment vehicles.

All investing involves a risk of loss and any investment strategy offered by FCMI could lose money over short or even long periods. Performance could be hurt by several different market risks including, but not limited to:

- Stock market risk, which is the chance that overall stock prices will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- Sector risk, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market.
- Interest rate risk, which is the chance that interest rates will rise. This causes the prices of fixed income securities to fall since the price of most fixed income securities move in the opposite direction of the change in interest rates. If clients hold a fixed income security to maturity, the change in its price before maturity may have little impact on the performance; however, if the client must sell the fixed income security before the maturity date, an increase in interest rates could result in a loss.
- Inflation risk, which results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if a client purchases a 5-year bond in which it can realize a coupon rate of 5%, but the rate of inflation is 6%, then the purchasing power of the cash flow has declined. For all but inflation-linked bonds, adjustable bonds or floating rate bonds, clients are exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.