

**Form ADV - Part 2A: Potomac Advisors, Inc.**



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July 31, 2023

This brochure provides information about the qualifications and business practices of Potomac Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at [info@potomacadvisorsinc.com](mailto:info@potomacadvisorsinc.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Potomac Advisors Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Potomac Advisor, Inc.'s CRD number is: 131070.

## **Form ADV - Part 2A: Potomac Advisors, Inc.**

### **Item 2: Material Changes:**

The purpose of this page is to inform you of any material changes since the previous version of this brochure.

Since last filing our last amendment in March of 2022, two material changes have occurred.

Potomac Advisors, Inc is seeking registration in the state of Florida as a Registered Investment Advisor (RIA). It is currently a SEC registered firm.

AUM as of July 2023 is \$16,974,804.00 and AUA as of July 2023 is \$179,014,198.00

Pursuant to SEC Rules, PA will ensure that clients receive a summary of any material changes to this and subsequent disclosure brochures within 120 days of the close of PA's fiscal year which is concurrent with the end of the calendar year. PA may further provide other ongoing disclosure information about material changes as necessary. PA will also provide clients with a new disclosure brochure as necessary based on changes or new information at any time, without charge.

## Form ADV - Part 2A: Potomac Advisors, Inc.

### Item 3: Table of Contents

Item #	Section	Page
Item 1	Cover page.....	1
Item 2	Material Changes.....	2
Item 3	Table of Contents.....	3
Item 4	Advisory Business.....	4
Item 5	Fees and Compensation.....	6
Item 6	Performance-Based Fees and Side-By-Side Management.....	8
Item 7	Types of Clients and Account Minimums .....	8
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9	Disciplinary Information.....	14
Item 10	Other Financial Industry Activities and Affiliations .....	14
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading. ....	14
Item 12	Brokerage Practices.....	15
Item 13	Review of Accounts .....	17
Item 14	Client Referrals and Other Compensation.....	17
Item 15	Custody .....	18
Item 16	Investment Discretion .....	18
Item 17	Voting Client Securities.....	18
Item 18	Financial Information.....	18
Item 19	Requirements for State-Registered Advisers .....	19
Item 20	Privacy Notice.....	19

## Form ADV - Part 2A: Potomac Advisors, Inc.

### Item 4: Advisory Business

#### A) Firm Description

Potomac Advisors, Inc. (hereinafter "PA") is an SEC registered investment advisor based in Lakewood Ranch, Florida. It will be changing from an SEC registered investment advisor to a state registered investment advisor. The company was founded in 2003, under Florida state law, and is currently licensed in Florida, Maryland and Texas. Richard M. Paul is the President, CIO. Meghan Paul is the VicePresident, Operations and an Investment Advisor Representative. As of December 22, 2021, 98% of ownership in Potomac Advisors Inc., has transferred to the Richard M Paul 2021 Family Trust. Ms. Florence Paul and Ms. Meghan Paul are co-trustees.

#### B) Type of Advisory Services

PA offers three services: 1) non-discretionary Signal Providing Services, where PA provides to unaffiliated SEC and state registered investment advisers, financial planning firms, broker-dealers, banks and other financial institutions (hereinafter the "primary adviser") market timing signals and suggestions to buy stock or fixed income mutual funds or Exchange Traded Funds (ETFs); 2) sub-advisory services to an investment company registered under the Investment Company Act of 1940; and 3) continuous and regular supervisory or management services primarily to individuals, including high net worth individuals, and occasionally to pension and profit-sharing plans; trusts; estates; corporations and other business entities (hereinafter "Clients").

PA does not hold itself out as providing, nor do we provide any financial planning or related consulting services. Neither PA, nor any of its representatives, serves as an attorney, accountant, or insurance agent, and no portion of PA services should be construed as the same.

#### SIGNAL PROVIDING SERVICES

PA has developed four proprietary, quantitative investment strategies: EVO 1, EVO 2, EVO 3, and Tactical Asset Allocation (hereinafter "TAA"). These strategies process financial market data using technical analysis and, when possible, technical analysis converted into mathematical algorithms that produce periodic instructions to purchase or sell various mutual funds, and ETFs (hereinafter "Signals") and allocation recommendations for such funds and ETFs. These Signals are available to a Primary Adviser upon execution of a license agreement and delivered via email and/or telephone. The Primary Adviser is under no obligation to utilize the Signals provided by PA and reserves the right to use or not use the Signals for managing its clients' accounts at its sole discretion. If the Primary Advisers accept the recommendations, they place the orders and effect their execution. PA does not arrange, implement, or effectuate the trade.

#### SUB-ADVISORY SERVICES

PA has an investment advisory contract with Tactical Fund Advisors ("TFA") to manage the TFA Quantitative Fund, Class A Shares (Ticker: TFAPX), Class I Shares: (Ticker: TFAQX). This fund has been submitted to the SEC for approval.

#### SUPERVISORY MANAGEMENT SERVICES

PA offers limited-discretionary portfolio management services to its clients. All Clients sign Part I of the PA's Investment Management Agreement, which limits this discretion to the selection and timing of the

## Form ADV - Part 2A: Potomac Advisors, Inc.

proper mix and balance of securities, and to placing orders for the purchase, sale or exchange of those securities. PA places orders in the Client's accounts without prior consultation with the Client.

### C) How Advisory Services are Tailored to Client Needs

#### SIGNAL PROVIDING SERVICES / SUB-ADVISORY SERVICES

Under the signal-providing and sub-advisory arrangements, the primary adviser remains responsible for determining their client's investment objectives and whether PA's investment strategies are suitable to meet such investment objectives. Accordingly, PA's investment strategies are not tailored to accommodate the needs or objectives of specific clients, but rather, are designed to enable the primary advisor to match clients with the strategy that is consistent with their investment goals and objectives.

#### SUPERVISORY MANAGEMENT SERVICES

For supervisory management services, acceptance, supervision and portfolio management of each Client's account is tailored to and based upon the completion of a suitability questionnaire (Part II of the Investment Management Agreement) and an interview of the investor by a PA representative or an unaffiliated third party representative who may have referred the Client to PA (hereinafter, "Solicitor"). (For more information about Potomac's relationship with Solicitors, see Item 10, "Other Financial Industry Activities and Affiliations" of this brochure). The suitability questionnaire gathers the Client's investment experience, liquidity requirements, tolerance for risk and general financial condition. This helps establish the Client's relative risk profile, tolerance of losses, and investment time horizon, which guides the selection of strategies for the Client's account. Additionally, Clients may impose restrictions that may affect the ability of PA to manage the Client's assets.

Based on the Client's interview and questionnaire, PA allocates investments into either the EVO Strategies, or into other mutual funds, stocks or ETFs through PA's TAA strategies, or a combination of both.

It remains the Client's responsibility to advise PA (and/or the Solicitor that introduced the Client to PA), in writing, of any changes in their investment objectives and/or financial situation. All Clients (in person, via telephone, or written communication) are encouraged to review investment objectives and account performance on an annual basis. If the Client is referred to PA by a Solicitor, the Client should direct all such communications to the Solicitor.

**Please Note:** In performing its services, PA is not required to verify any information received from the Client or from the Client's other professionals, including the Solicitor, and is expressly authorized to rely thereon. Solicitors who refer Clients are exclusively responsible for: (1) determining initial and ongoing Client suitability for the various adviser investment strategies; and, (2) for receiving/ascertaining all Client directions, notices and instructions, and forwarding them to PA, in writing. PA will rely upon any such direction, notice, or instruction until it has been advised of changes in writing. PA is not responsible for the failure of the Solicitor to timely receive/ascertain/forward/communicate Client directions, notices and instructions.

### D) Wrap Programs

PA does not currently offer any wrap fee programs.

### E) Regulatory Assets Under Management and Non-Regulatory Assets under Advisement

## Form ADV - Part 2A: Potomac Advisors, Inc.

### REGULATORY ASSETS UNDER MANAGEMENT:

- The amount of regulatory assets under management, which includes all assets that PA has discretionary authority over and provides continuous and regular supervisory or management services as of July 31, 2023, is approximately \$16,974,804.00.

### NON-REGULATORY ASSETS UNDER ADVISEMENT

- Outside assets that are “held-away,” where trades are arranged and effectuated by Primary Advisers utilizing our Signal Providing Services, as of July 31, 2023, amounted to approximately \$179,014,198.00.

## Item 5: Fees and Compensation

### A) Signal Providing Services Fee Schedule

Primary Advisers pay PA an annual royalty fee not to exceed 0.50% based on the dollar value of all assets managed using PA's recommendations. These fees are payable to PA quarterly at ¼ the annual rate in advance or in arrears, depending upon when the Primary Adviser charges their clients. Fees are negotiable depending on the anticipated volume of assets for which the Primary Advisers use PA's recommendations, and in some cases, the costs for preparation, travel, and time spent in assisting the Primary Advisers in marketing their services that use PA's recommendations for their clients.

Primary Advisers also pay PA a base minimum fee due in advance of each quarter. This fee can be used to offset quarterly royalty payments, as described above. The base minimum fee is negotiable but is no less than \$1,200 per quarter for Primary Advisers with less than \$100,000,000 in regulatory assets under management, and no less than \$2,000 per quarter for Primary Advisers with more than \$100,000,000 in regulatory assets under management. Once the royalty fee substantially exceeds the base minimum fee, the base minimum fee may be omitted at PA's discretion.

### B) Sub-Advisory Services

PA will serve as a sub-adviser for the following registered investment companies, where other SEC-registered investment advisers serve as the primary investment adviser:

- Tactical Fund Advisors LLC serves as the primary investment adviser: Tactical Quantitative Fund (A Share Ticker: TFAPX, I Share Ticker: TFAQX), of which PA receives a portion of the management fee of 1.3%.

For details about the fees and expenses associated with these registered investment companies, you may consult the available information on the following website:

- Tactical Funds Advisors website at [www.tfafunds.com](http://www.tfafunds.com)

Fees are described in the prospectus or offering documents available on this website.

### C) Supervisory Management Services Fee Schedule

PA charges an annual fee of up to 2% of the market value of the assets under management. These fees are negotiable and memorialized in the Investment Management Agreement. Fees are billed and payable quarterly in advance, at a rate equal to ¼ of the annual fee percentage, multiplied by the market value of the assets on the last day of the previous quarter.

## **Form ADV - Part 2A: Potomac Advisors, Inc.**

Fees for new accounts will be prorated based on the initial value of the investment account assets, as of the date of acceptance of the Investment Management Agreement by PA, and the number of days remaining in the quarterly management period. Additional assets received into the account after it is opened will be charged a prorated fee based upon the number of days remaining in the quarterly management period from the date of the addition.

PA, in its sole discretion, may charge a lower investment management fee and/or reduce or waive its account minimum based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with Client, etc.). Officers and Directors of PA, and certain other persons may be charged less than full fee, as previously detailed, upon approval of an authorized PA executive.

### **C) Payment of Fees**

#### **SIGNAL PROVIDING / SUB-ADVISORY SERVICES**

PA does not deduct any fees directly. Rather, the primary investment adviser's custodian deducts applicable fees on behalf of all interested parties (e.g., adviser, subadviser, etc.) including PA.

#### **SUPERVISORY MANAGEMENT SERVICES**

Fees will be deducted directly from Client's account by the custodian upon written authorization by the Client. In some circumstances, Client may pay by check or Electronic Funds Transfer (EFT) if requested in writing to PA and upon PA's approval. Each time a fee is directly deducted from the account, PA will concurrently send to the Client's principal custodian a notice showing the management fee to be deducted, and to the Client, an invoice itemizing the fee, the amount of assets upon which the fee is based, how the fee was calculated, and the time period covered by the fee. Clients should review and verify the calculation of our fees. The custodian/broker-dealer does not verify the accuracy of fee calculations. Fees billed will be deemed correct and final unless Client sends PA notification in writing by post or email to the contrary within five (5) days after the invoice is sent via email or by post.

### **D) Other Fees Clients May Incur**

In addition to our management fees, Clients may be required to pay other fees and expenses (as applicable) such as custodial or brokerage transaction fees. These fees are not related to our service. We do not receive any portion of these fees. In addition to these fees, mutual fund companies and exchange-traded funds ("ETFs") charge internal management and administrative fees and expenses for their products. Complete details of these internal fees and expenses are explained in each fund's prospectus. Clients are strongly encouraged to read these explanations before investing any money. Our management fee is not reduced by the amount of any fund or transaction fees.

The above fees may also include, but are not limited to: transfer fees, wire fees, account service fees, load fees, including 12b-1 marketing fees. Some funds carry short-term redemption fees up to 2%, which vary by fund in terms of percentage and minimum required holding periods. Some broker dealers may also charge their own short-term redemption fees in addition to those imposed by some mutual funds. Mutual funds not included on institutions' No-Transaction Fee Network are subject to a transaction fee upon purchase or sale. All such fees and expenses reduce the net asset value of the investments' shares on a continuing basis. These fees are reflected in the value of the investments' shares and are indirectly incurred by Clients in addition to our management fees. PA does not share in any portion of any fees including load or 12b-1 fees, nor does it receive any economic benefit from these fees or any other fees. For more information on broker practices and how they may affect your investments, please refer to Item

## **Form ADV - Part 2A: Potomac Advisors, Inc.**

12 (“Broker Practices”) of this brochure.

Clients may ask us any questions that they have about fees and expenses.

### **E) Refunds**

If a client terminates the management agreement within five business days of the effective date, the fee will be refunded in full. Otherwise, all agreements remain in full force until terminated by either party. Either party may terminate the agreement at any time by giving written notice. Upon termination, fees are refundable on a pro rata basis from the date of termination through the end of the billing period, after deduction for administrative costs up to \$200. The fees for termination may not exceed the actual expenses incurred in processing the termination.

In the event of a partial withdrawal, fees are refunded from the date of the withdrawal for the remainder of the quarterly management period. No fee adjustments less than \$150 will be made for partial withdrawals.

### **F) Compensation for the Sale of Securities or other Investment Products**

No employees or supervised persons of PA accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Performance-based fees are designed to give a portion of the capital appreciation of an investment to the investment adviser as a reward for positive performance. The fee is generally a percentage of the profits made on the investments. PA does not charge performance-based fees on any of our client accounts.

## **Item 7: Types of Clients and Account Minimums**

### **SIGNAL PROVIDING SERVICES**

As previously defined, PA offers market timing signals, mutual fund, equity and ETF recommendations (Signals) to unaffiliated registered investment advisers, or “Primary Advisers.”

Primary Advisers are not required to have a certain minimum asset under management to license PA’s Signals. However, PA reserves the right to terminate the agreement should no assets ever come under management.

### **SUPERVISORY MANAGEMENT SERVICE FEES**

As previously defined, PA offers investment supervisory and management services to primarily individuals, including high net worth individuals, and occasionally to pension and profit-sharing plans; trusts; estates; corporations and other business entities (hereinafter “Clients”).

PA imposes a minimum new account value of \$100,000. PA reserves the right to waive the minimum based upon individual circumstances, pre-existing relationships, where the minimum can be met within a specified time period, or at a PA officer’s sole discretion. Investment advisory services are not appropriate for all persons and/or entities. Therefore, PA reserves the right to decline to provide services to any person or firm.



## Form ADV - Part 2A: Potomac Advisors, Inc.

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

***Investing in securities involves risk of loss that you should be prepared to bear. Additionally, because many of PA's strategies have a low correlation to the broader market, it's possible that a client's account may depreciate in value over periods of time when the market appreciates in value.***

#### A) EVO Strategies

EVO 1 is a proprietary mechanical trading system that generates buy, sell and hold signals based on algorithmic rules derived from quantitative analysis. Quantitative analysis of the stock market refers to financial analysis that aims to understand stock market patterns and behavior. It does so through statistical modeling, research, and the use of modern technology and the availability of comprehensive databases to make mathematical measurements and calculations. Quantitative analysis aims to represent a given reality in terms of a numerical value of the probability that a trade will be profitable.

Historic financial and raw stock market technical data are used in developing the EVO trading system model, including major and secondary market indices, market breadth (advancing and declining issues, the number of new yearly stock highs and lows), volume, volatility measures, interest rate, sentiment and seasonality data. This data is integrated into a set of algorithmic rules to identify patterns with the highest probability of predicting near term stock market direction and then those rules are employed for making trading decisions.

EVO 1 invests using the Rydex NOVA Fund, a leveraged (1.5X the daily change of the S&P 500 index) fund for long positions, the Rydex Inverse S&P 500 Strategy Fund, an un-leveraged inverse S&P 500 index fund, for short positions, and the Rydex U.S. Government Money Market Fund for cash positions. All trades apply an "all in" allocation, i.e. 100% allocation to whichever fund is selected.

EVO 2 uses EVO 1's mechanical system to identify trading opportunities, as well as signals from other technical analysis indicators that cannot be easily quantified and formulated into a mathematical algorithm.

The result of this analysis is to overlay its forecast of market direction on EVO 1's. EVO 2 invests in the same funds as EVO 1, but varies its allocations based on the strength of the mechanical system signals and whether the other technical analysis indicators are confirming or non-confirming the EVO 1 signals. When confirming, a discretionary decision may be made to take a more aggressive allocation in a fund. When the forecasts are contrary or not strongly supported, a decision may be made to lower the weighting in the fund or exit entirely. In some cases the strength of the technical analysis forecast may even result in an inverse position taken relative to EVO 1 position.

The EVO 3 Strategy applies the same non-discretionary mechanical timing signals and allocations used for EVO 1 to the unleveraged Rydex NASDAQ 100 Index Fund for long positions and to the same funds as used in EVO 1 for short and cash positions.

All three EVO strategies aim to preserve capital and provide a higher absolute and risk adjusted return than the stock market by making short-term trades, and compounding results into long-term superior performance.

#### B) Tactical Asset Allocation Strategies (TAA)

TAA is a dynamic investment strategy where PA actively adjusts a portfolio's asset allocation among mutual funds, ETF's and occasionally stocks. TAA's goal is to improve the risk-adjusted returns of passive management investing and to avoid stock or bond market meltdowns. TAA evaluates which market sectors

## **Form ADV - Part 2A: Potomac Advisors, Inc.**

or asset classes (stocks, bonds or cash) provide the best opportunity to outperform in a given time. It may involve a blend of different asset classes or entirely one asset class. There is no generally accepted definition of the term “market timing.” However, a broad definition of the term could encompass any TAA strategy PA employs other than “buy and hold.”

Using a database that provides performance and other metrics for all mutual funds and ETFs available for investment, these securities are screened for the best combination of risk and return. Modern Portfolio and Post-Modern Portfolio Theory metrics are used to filter and select the most promising funds and ETFs. Clients are interviewed to determine their level of risk and a variable number of funds fitting those criteria are selected for the portfolio.

Quantitative analysis and technical analysis similar to that used in the EVO strategies are used to evaluate the most opportune time to be invested in equities, bonds and/or cash. The difference is that TAA uses longer-term models and like EVO 2 includes discretionary timing decisions based on non-quantifiable technical analysis, rather than purely mechanical timing. The exception to this is with respect to high yield bond mutual fund trading. Mechanical models based on quantitative analysis are used to trade these types of mutual funds.

Occasionally, individual stocks are selected for TAA investments. Stocks are chosen based on fundamental, charting, technical analysis, and cyclical information.

Fundamental Analysis studies a company's revenues, earnings, return on equity, profit margins, and future growth projections by the company and professional analysts, who follow the company, to determine a security's underlying value and potential for future price movements.

Charting focuses on the effect of previous price and volume movements through studying graphs, charts and tables of primarily a stock's daily price and volume to identify patterns in a stock's behavior in order to predict future price movements.

Technical Analysis of stocks involves studying supply and demand for a stock through measurements of short interest and insider trading of the stock, its momentum through moving averages and rate of change of the stock price, its regression to the mean and recognition of the aforementioned chart patterns and divergences between various prices and market internals such as breadth (advancing and declining issues), patterns of 52 week highs and lows, and cyclical information (i.e.: studying how the economy impacts security performance) to determine what direction, or trend will continue in the future.

### **C) Material Risk**

#### **Risks Unique to the EVO Strategies**

EVO 1 and EVO 2 use a leveraged S&P 500 index mutual fund for long positions in order to magnify the index's exposure 150% on a daily basis to increase the potential return on the investment. The use of leverage can also magnify the losses of an investment during a down market and increase the volatility relative to the underlying index. This fund seeks only to magnify the index returns 150% on a daily basis. Prolonged use of the fund may not represent such a multiple of the return. The fund's use of derivatives, such as futures, options and swap agreements, may expose the fund's shareholders to additional risks that they would not be subject to if they invested directly in the securities underlying those derivatives.

EVO 3 invests in the Rydex NASDAQ-100® for long positions, which involves risks that may include increased volatility due to the use of options or futures and the possibility that companies in which the fund

## Form ADV - Part 2A: Potomac Advisors, Inc.

invests may not be commercially successful or may become obsolete more quickly. There are no assurances that any Rydex fund will achieve its objective and/or strategy. This fund is subject to active trading and tracking error risks, which may increase volatility, impact the fund's ability to achieve its investment objective and may decrease the fund's performance. This fund is considered non-diversified and can invest a greater portion of its assets in securities of individual issuers than a diversified fund. As a result, changes in the market value of a single security could cause greater fluctuations in the value of fund shares than would occur in a more diversified fund.

All EVO strategies may employ an un-leveraged inverse S&P 500 index mutual fund for short positions. Inverse funds are used to increase the potential return of the investment when the underlying index decreases in value. Conversely, they would result in a depreciation of the funds value when the underlying index increases in value. Short positions have been made very infrequently.

While investment buy and sell decisions generated by the EVO system may have been successful in the past, or have demonstrated the possibilities of success in research studies, the system may be changed or be ineffective when applied to future market environments. Buy and sell decisions generated by formulas used in EVO are subject to unique and varying risks in addition to the traditional market risks of equity investing. These risks, described below, are attributed to the mechanical nature of the EVO strategy.

1. Patterns of market data and technical indicators that are used in the formulas that have correlated with stock market direction, and were used to identify stock market buy and sell timing decisions in the past, may temporarily or permanently not correlate with the stock market direction in the future. This could lead to losses when using these formulas. To mitigate this risk, the EVO strategy is constantly evaluated to determine whether certain formulas should be changed or omitted when such formulas are no longer providing value.
2. A mechanical trading system may generate a series of consecutive losing signals resulting in the compounding of losses in excess of the stock market over the same time period.
3. Material market conditions such as unpredictable sudden financial, economic, or political news events that affect the market and reverse the direction of the market with respect to the direction forecast by the mechanical formula may have a short term negative impact leading to losses.

To limit the impact of such losses, EVO 1 & 3 (the mechanical models) currently employ a 7 ½% stop loss on each trade, measured from the closing value of the S&P 500 stock index from the date of entry. Once this threshold is met or surpassed, we exit the fund on the next trading day, unless a new EVO composite system buy signal occurs on the same day as the stop. Once stopped out, a new EVO buy signal is required for reentry. However, there is no assurance that the net trade loss would be 7 ½% or less if stopped out. While stop loss trades have been infrequent in the past, there is no assurance that the frequency of such trades will not increase in the future.

PA attempts to accomplish the investment objectives of the EVO strategies with short-term trading. Such trading, if successful, will generate taxable short-term gains or losses if realized in a taxable account. All EVO strategies use No Transaction Fee (NTF) funds so there are no transaction costs in utilizing the funds in the EVO strategies.

As with any investment, there can be no assurance that the investment objectives will be obtained or that material loss will not be incurred, and PA does not warrant investment success. Client acknowledges that they are fully cognizant of these risks.

## **Form ADV - Part 2A: Potomac Advisors, Inc.**

Given the potential risks involved in the EVO strategies such as employing leverage and/or shorting, they may not be suitable for conservative investors.

### **Risks Unique to Tactical Asset Allocation Strategies**

Occasionally, frequent trading can affect investment performance of TAA strategies since this may increase the potential for taxes in taxable accounts. Patterns of high yield bond fund data and technical indicators that are used in the mechanical formulas that have correlated with high yield bond fund direction and were used to identify high yield bond fund buy and sell timing decisions in the past may temporarily or permanently not correlate with the funds' direction in the future. Likewise, quantitative analysis that identified opportune times to buy and sell equity funds and ETFs in the past may not perform the same in the future.

## **D) Security Risk**

### **Tactical Asset Allocation Strategies Security Risks**

Investing in bond and high yield bond mutual funds, equities and equity mutual funds, and ETFs involves risks, including interest rate risk, credit risk, and reinvestment rate risk. Investing in equities and equity mutual funds involves additional risks, including business risk, market risk and liquidity risk. Investing in international and emerging market stocks, mutual funds and ETFs involves additional risks, including political risk and currency risk. TAA Strategies will sometimes involve frequent trading. Managers of actively managed mutual funds and ETFs may change and with it fund performance may change. Additional risks in investing in equities follows this section.

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Credit Risk:** is the risk of default on a debt that may arise from a borrower failing to make required payments and includes lost principal and interest, disruption to cash flows, and increased collection costs.
- **Reinvestment Rate Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a

## Form ADV - Part 2A: Potomac Advisors, Inc.

security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Inflation Risk:** When any type of inflation is present, a dollar today will buy more than a dollar next year, because purchasing power is eroding at the rate of inflation.

In addition to the most common risks associated with investing in stocks described above, PA's methodology of selecting stocks may pose additional risks as follows:

- **Charting analysis strategy** involves using and comparing various charts to predict long and short-term performance of stock trends. The risk involved in using this method is that only past performance data is considered and past patterns may not be indicative of future performance.
- **Fundamental analysis** concentrates on factors that determine a company's value and expected future earnings. This strategy would normally encourage equity purchases in stocks that are undervalued or priced below their perceived value. The risk assumed is that the stock will fail to reach expectations of perceived value.
- **Technical analysis** attempts to predict a future stock price or direction based on various patterns and statistics regarding the stock's price, volume, supply and demand. The assumption is that the stock follows discernible patterns and if these patterns can be identified then a prediction can be made. The risk is that stocks do not always follow patterns and relying solely on this method may not work long term.
- **Cyclical analysis** assumes that the markets react in cyclical patterns which, once identified, can be leveraged to provide performance. The risks with this strategy are two-fold: 1) the markets do not always repeat cyclical patterns and 2) if too many investors begin to implement this strategy, it changes the very cycles they are trying to take advantage of.

**Please Note:** The investment strategies listed above may not be appropriate for all investors. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by PA) would be profitable or equal any specific performance level(s). Investment returns and the value of your investment will fluctuate and may lose money. Investing involves risk that you should be prepared to bear. All investments in securities and/or investment products include possible risk of loss of your principal and profits. Additional information regarding the risks associated with the investments that may be owned is more fully explained in the prospectus provided by the investment companies. Please read the prospectus of the individual funds for more information.

### Item 9: Disciplinary Information

## **Form ADV - Part 2A: Potomac Advisors, Inc.**

PA does not have any legal or disciplinary events to disclose.

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

PA does not have any other financial industry activities and affiliations.

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

#### **A). Code of Ethics**

PA has adopted a code of ethics pursuant to SEC rule 204A-1. The Code of Ethics serves to establish a standard of business conduct for all of Potomac Advisor's associated persons that are based upon fundamental principles of openness, integrity, honesty and trust. The code of ethics must be signed by all employees and by doing so they agree to the following: employees cannot seek to benefit from insider information, all Client information is strictly confidential, and employees must provide a personal securities transaction report on a quarterly basis. A copy of Potomac's code of ethics is available upon request to any Client or prospective Client.

You may, or may not, be familiar with the roles fiduciaries play in various legal situations and in certain industries. As a registered investment adviser, PA is a fiduciary to each and every Client.

As fiduciaries, registered investment advisers owe their clients several specific duties. According to the SEC, these duties include:

- Providing advice that is suitable;
- Providing a full disclosure of material facts and potential conflicts of interest (such that the Client has complete and honest disclosure to make an informed decision about PA's services and investment recommendations);
- The utmost and exclusive loyalty and good faith;
- Best execution of transactions under the available circumstances;
- PA's reasonable care to avoid ever misleading Clients.
- Only acting in the best interest of our clients

#### **B). Recommendations Involving Material Financial Interests**

PA does not recommend that Clients buy or sell any security in which a related person to PA has a material financial interest.

#### **C). Recommendations Involving Securities PA May Also Invests In**

PA or any related person(s) may have an interest or position in a certain security(ies) (mostly fixed income and equity mutual funds and ETFs but also including occasional positions in equities) which may also be recommended to a client. As these situations may represent a conflict of interest, PA has established the following restrictions in order to ensure its fiduciary responsibilities:

1. A director, officer or employee of PA shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on

## Form ADV - Part 2A: Potomac Advisors, Inc.

reasonable inquiry. No associated person of PA shall prefer his or her own interest to that of the advisory Client.

2. PA maintains a list of all securities holdings for itself, and anyone associated with this advisory practice. These holdings are reviewed on a regular basis by Mr. Paul, President.
3. PA requires that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices.
4. Any individual not in observance of the above may be subject to termination.

### **D) Investing Personal Money in the Same Securities as Clients**

PA may buy or sell the same securities that are bought or sold for Clients. Likewise, the firm's related persons and supervised persons including officers and members of the Board of Directors, and all employees, are also permitted to buy or sell the same securities for their personal and family accounts that are bought or sold for Client accounts. These personal securities transactions by such persons or by the firm for its account may raise potential conflicts of interest when they trade in a security that is owned by a client or considered for purchase or sale for a Client in one of our strategies.

PA has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our employees to act in the Client's best interest
- prohibit favoring one Client over another
- require that no person employed by, controlled or supervised by PA purchase or sell any security prior to a transaction being implemented for an advisory account on the same day, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts for that day.

## **Item 12: Brokerage Practices**

### **A) Factors Influencing Broker Dealer Recommendations**

At times, PA may suggest a Broker to a Client. While Clients may request a service provider of their choice, PA cannot guarantee the best execution in such cases. Ultimately, the Client remains responsible for the broker-dealer selection and account application.

Broker-dealers are recommended based on the variety and range of mutual funds available, relative commission rates, financial condition, operations, compliance, due diligence, trading practices, and the efficiency and accuracy of effecting transactions. For ETFs, the ability to obtain the most favorable executions is considered. Mutual funds that charge 12b-1 (annual marketing or distribution fees) may be used, but PA does not receive any portion of said fee/commission and there is no additional research fee. Such funds may be used even if the same fund is available without the 12b-1 fee. Funds with 12b-1 fees are generally available at the broker dealer platform with no transaction fees (NTF), whereas no-load funds without the 12b-1 fees usually incur a transaction fee. Since the transaction fees are a fixed amount regardless of the size of the purchase, NTF 12b-1 fee funds may be more cost effective at times. Another factor that is taken into consideration is the expected length of time that the fund is expected to be held. For even large size purchases, it may be more cost effective to the Client to utilize an NTF fund with a 12b-1 fee versus a no load fund with a transaction fee. When the same ETFs are purchased or sold for multiple Client accounts, the transactions are aggregated in a block account for an omnibus transaction to effect a uniform price for all accounts. As always, full disclosure is exercised and Clients maintain full discretion.

## **Form ADV - Part 2A: Potomac Advisors, Inc.**

### **B) Soft Dollars and Other Considerations**

Generally speaking, soft dollars are benefits (primarily investment research and brokerage services) that investment advisers may receive in exchange for directing trade activity to a particular brokerage firm. PA receives general research, business-related products and back-office administrative support services in addition to execution from its recommended broker/dealers in connection with Client securities transactions. Therefore, PA does receive benefits from its selected broker-dealer firms that it would not otherwise receive if it were not a registered investment adviser.

PA's service providers make certain account trading software available to advisers. Additionally, the adviser may receive traditional "non-cash benefits" from service providers such as customized statements; receipt of duplicate Client confirmations and bundled duplicate statements; access to a trading desks servicing adviser participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to Client accounts; ability to have investment advisory fees conveniently deducted directly from Client accounts; access to an electronic communication network for Client order entry and account information; access to mutual funds which generally require significantly high minimum initial investments or those that are otherwise only generally available to institutional investors; reporting features; receipt of regulatory compliance communications; and perhaps discounts or free access to industry-related conferences, seminars or workshops. The adviser would generally not receive any considerations above paid admission and customary meals.

### **C) Brokerage for Client Referrals**

PA receives no referrals from a broker/dealer or third party in exchange for using the services offered by that broker/dealer or third party

### **D) Directed Brokerage**

PA does not recommend, request, or require Clients to direct PA to execute transactions through a specified broker-dealer.

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

### **A) Periodic Review of Client Accounts**

All securities held in various Client accounts are reviewed on a daily, monthly and quarterly basis by Richard M. Paul and/or Meghan Paul. All accounts participating in the same investment strategy are managed in a similar manner. The daily review focuses on the analysis of all investment positions with respect to: price action of the securities, portfolio objectives in terms of risk and reward parameters, U.S. and global market conditions, and performance of alternative securities. Individual accounts are reviewed before and after a trade is made. Monthly reviews focus on reviewing and confirming monthly account balances. Quarterly reviews focus on confirming performance is in alignment with the majority of Client accounts traded similarly and the overall objective of the Client and strategy used for that portfolio. Periodically, Mr. Paul or Ms. Paul review reports of realized and unrealized capital gains at custodians where these reports are provided.

### **B) Non-periodic Review of Client Accounts**

Events triggering additional reviews include Client requests, change in Client objectives or financial status, U.S. and world economic and political events, and any other events that may affect investment positions.

### **C) Client Reports**



## **Form ADV - Part 2A: Potomac Advisors, Inc.**

PA provides quarterly reports to all Clients showing their total net assets, management fees and the manner in which the fees were computed. The Custodian provides confirmation statements of purchase and sales transactions, and provides monthly statements showing all transactions in their account including but not limited to purchase and sales of securities, dividends, interest income and interest expense (margin interest) if applicable, capital gains distributions, their holdings, total net assets and any management fees deducted by PA. The custodian also provides year-end consolidated 1099 and Form 5498 statements as applicable providing tax information as required by the IRS.

It remains the Client's responsibility to advise PA (and/or the Solicitor that introduced the Client to PA), in writing, of any changes in their investment objectives and/or financial situation. All Clients (in person or via telephone) are encouraged to review investment objectives and account performance on an annual basis. If the Client is referred to PA by a solicitor, the Client should direct all such communications to the Solicitor.

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

#### **A) Economic Benefits for Investment Advice from Non-Clients**

PA does not receive any economic benefit for providing investment advice or other advisory services to PA's Clients from someone who is not a client.

#### **B) Client Referrals via Solicitors**

PA may enter into written agreements with certain individuals and entities who will act as Solicitors of Potomac's investment advisory services. Solicitors are compensated for referrals by receiving a portion of the advisory fees it collects ranging from 30% to 50% of the fee paid by Clients to PA in accordance with a written solicitor's referral agreement, which complies with the Federal regulations as set out in 17CFR Section 275.206(4)-3(a). Such an agreement requires the Solicitor to: (1) provide the Client with a separate solicitor's written disclosure statement, which complies with the federal regulations as set out in 17CFR section 275.206(4)-3(b), prior to or at the time of entering into any advisory contract, and (2) provide PA with a signed and dated acknowledgment of receipt of the same disclosure statement by the Client. The disclosure statement shall provide: (1) the scope of the Solicitor's activities, (2) a covenant by the Solicitor to perform such activities consistent with instructions of the investment adviser and in compliance with the Investment Advisers Act of 1940 and associated rules, (3) fees paid to the Solicitor for the referral, (4) a covenant by the solicitor to provide the Client with a copy of the investment adviser's Form ADV Part 2A, the adviser's privacy policy, and the separate written solicitor disclosure statement. PA may also reimburse a Solicitor for expenses incurred by such representative when marketing Potomac's investment advisory services.

### **Item 15: Custody**

Client assets will be held by a qualified custodian. PA does not have physical custody of, or title to a client's funds at any time, but we may be deemed to have custody when you authorize us to deduct our fees directly from your account. Clients will receive a monthly statement directly from the custodian where the Client's assets are held. Discretionary, asset-based fee Clients will receive a quarterly statement/invoice from PA showing the assets upon which the fees are based and, the manner in which the fees are calculated, and the amount of the fees. Clients should review this statement and compare the assets on the statement (before the addition of any accrued distributions, which are shown separately and paid in the following month), to the custodian's month ending market value corresponding to the same month as the invoice. If there is a discrepancy between the statements, please contact your Solicitor or PA, immediately.

## **Form ADV - Part 2A: Potomac Advisors, Inc.**

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

PA maintains limited discretion. In other words, PA has the authority to determine the securities and amount to be bought or sold in a client's account. The Investment Management Agreement limits this discretion to investment selection and execution, as well as distribution of funds to the address of record. Upon written instructions, Clients may exclude the purchase, sale or short sale of any of the securities. The discretionary authority the Client grants us does not provide us the ability to choose the custodian through which transactions for the Client's account will be executed. Additionally, our discretionary authority does not provide us the ability to withdraw funds from the Client's account (other than to withdraw our advisory fees, which may only be done with the Client's prior written authorization).

### **Item 17: Voting Client Securities**

Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent. PA does not vote proxies as indicated in the Investment Management Agreement. If a client directs the custodian to send proxies to PA they will not be voted on behalf of the Client. However, If a Client has a question about a proxy or solicitation they received directly from their custodian or transfer agent they may contact PA by telephone or email but ultimately the Client is responsible for voting or not voting the proxy if they decide to do so.

### **Item 18: Financial Information**

#### **A. Balance Sheet**

A balance sheet is not required because PA does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance.

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

PA has no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients.

#### **C. Pending or Past Bankruptcy**

PA has never been the subject of a bankruptcy petition.

### **Item 19: Requirements for State-Registered Advisers**

#### **A) Principal Executive Officers**

The education and business background for all management and supervised persons can be found in Part 2B of this Brochure.

#### **B) Outside Business Activities**

Richard M. Paul, President and CIO of PA, has no outside business activities.

#### **C) Performance Based Fee Description**

PA does not receive any performance-based fees.

#### **D) Disclosure of Material Facts Related to Arbitration or Disciplinary Action Involving Management Persons**

No management persons of PA have any disclosures to report.

#### **E) Material Relationship Maintained by PA or Management persons with Issuers or Securities**

## Form ADV - Part 2A: Potomac Advisors, Inc.

There are no material relationships with issuers of securities to disclose.

**ANY QUESTIONS:** PA Chief Compliance Officer, Richard M. Paul remains available to address any questions that a client or prospective Client may have regarding the above disclosures and arrangements.

### Item 20: Privacy Notice

The following notice is furnished to Clients and prospective Clients in compliance with SEC Regulation S-P: PA collects nonpublic personal information about Clients from the following sources:

- Information received from Clients on applications, contracts or other forms
- Information about Client account transactions with us or others

We do not disclose any nonpublic personal information about Client to anyone, except to Client's agents or as permitted by law. (We may disclose information in order to cooperate with legal authorities or to protect our rights and interest.) If Client decides to close accounts or otherwise become an inactive Client, we will adhere to the privacy policies and practices as described in this notice. PA restricts access to Client personal and account information to those employees who need to know that information to provide products or services to Client. PA maintains physical, electronic and procedural safeguards to guard Client nonpublic personal information. Information on the disciplinary history (if any) and registration of PA and associated persons may be obtained by writing to the various State Regulatory Commissions or the United States Securities and Exchange Commission, Washington D.C. 20549 or by inquiry to PA's Chief Compliance Officer.