VSM WEALTH ADVISORY, LLC

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BROCHURE

March 18, 2022

This brochure provides information about the qualifications and business practices of VSM Wealth Advisory, LLC. If you have any questions about the contents of this brochure, please contact us at 410.825.8844. 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 VSM Wealth Advisory, LLC, is also available on the SEC's website at www.adviserinfo.sec.gov. The searchable IARD/CRD number for VSM Wealth Advisory, LLC is 313717.

VSM Wealth Advisory, LLC is a Registered Investment Adviser. Registration with the United State Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

Item 2 – Material Changes

Since our last Brochure, dated May 5, 2021, no material changes have been made other than an update to the Firm's assets under management (AUM). The AUM information has been updated to reflect values as of 12/31/2021.

Table of Contents

Item 4 – Advisory Business

About Our Firm

VSM Wealth Advisory, LLC ("VSM") was formed in 2021 as the successor to Van Sant and Mewshaw, Inc., which was founded in 1992. VSM Wealth Advisory, LLC, is principally owned by Fred Cregan Hill, III.

The Services We Offer

We provide portfolio management and investment supervisory services to the majority of our clients. These services are provided on a continuing basis. For 401(k) Plan Participants, we provide portfolio management services only for self-directed plans. In the course of managing your account we may provide incidental financial planning services. These services include budget management, insurance planning, retirement planning and college funding. Such services will be cursory in nature. A separate fee will not be charged for these services. If any additional fee is to be charged, other than the one specified in the initial client agreement, your consent in advance will be required. We do not hold ourselves out to be financial planners engaging in tax, estate, or other comprehensive financial planning. For qualified retirement accounts, VSM acts as a 3(38) level fee fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

How We Provide Those Services

VSM tailors individual client portfolios based on the client's needs, circumstances, goals, objectives, age, available capital, degree of sophistication and risk tolerance. You will deal directly with the investment counselor managing your portfolio. You may choose to have varying levels of involvement with the management of your portfolio. In some cases, you may choose to place restrictions on your account regarding specific securities or investment vehicles. If so, you must do this in writing.

Wrap Fee Programs

We do not participate in or offer wrap fee programs.

Assets Under Our Management

As of 12/31/2021, VSM Wealth Advisory, LLC had assets under management of $441,469,414.00. All of which is managed on a discretionary basis.

Item 5 – Fees And Compensation

How We Are Compensated For Our Services

VSM is a fee-only investment advisor. We are paid fees solely by our clients and no one else. All fees are fully disclosed to our clients and we receive no hidden fees, markups or monetary compensation whatsoever from anyone. We charge clients a fee for portfolio management and investment supervisory services. These fees are based on a percentage of assets under our management. We may recommend rollovers out of employer-sponsored retirement plans and into Individual Retirement Accounts that we manage for an asset-based fee. This will increase our compensation. Our basic fee is one percent (1%) per annum, assessed quarterly (.25%), of assets under our management. This fee is subject to negotiation within a range of three-eighths percentage (.375%) per annum and two percent (2.00%) per annum. For example, an account with a one percent (1%) per annum fee and valued at $250,000 at the beginning of the quarter would be billed $625. ($250,000 x .0025 = $625). In limited cases we may provide consulting services only. We might be asked to review a portfolio and give our opinion or recommendations. For this service we charge an hourly fee at the rate of $500 per hour or an agreed upon flat fee.

How We Receive Payment for Our Services

If you are charged a fee based upon the percentage of assets under our management you may have the fee deducted directly from your brokerage account or you may choose to be billed directly. If you are billed directly, payment is due within 30 calendar days. We bill our clients in advance of each quarter based on the market value at the end of the preceding quarter. For example; an account valued at $250,000 on December 31st, paying a one percent per annum fee, would be charged $625 for the following quarter, January, February and March. We send each client a detailed bill showing how the fee was calculated. We do this for each account that is being charged a fee.

Other Fees You Might Be Charged

There will be other fees and expenses associated with your account and/or investments. When buying and selling securities there may be transaction costs charged by the broker-dealer. This is discussed in detail in Item 12 (Brokerage Practices) below. All mutual funds have expenses shareholders will incur. All mutual funds have a management fee. Some funds charge distribution or marketing fees, commonly known as 12b-1 fees. Some funds charge a redemption fee to discourage short-term traders, which may cover a period from the day of purchase to a month or even a year. When we buy an ETF or mutual fund for your account, you will be sent a prospectus by the broker-dealer. The prospectus will provide detailed information related to the ETF's or mutual fund's costs. Always read the prospectus because it contains detailed information about cost, performance and the purpose of the mutual fund or ETF. We receive no compensation for the sale of securities or any other investment products, including asset-based sales charges, or service fees from the sale of mutual funds.

Termination

If you terminate your agreement with us before the end of the quarter, we will refund you any unearned fees, calculated on a *pro rata* basis. You may terminate your advisory agreement with us at any time for any reason. It's important that your request to terminate your advisory agreement with us be submitted in writing. It should state you wish to terminate and when the termination should take place.

Item 6 – Performance-Based Fees And Side-By-Side Management

We do not accept performance-based fees – that is, fees based on a share of capital gains or capital appreciation of the assets in your account.

Item 7 – Types Of Clients

VSM provides investment advisory services to individuals, pension and profit-sharing plans, deferred compensation plans, 401(k) Plan Trustees, 401(k) Plan Participants, individual retirement accounts (IRA), trusts, estates and charitable organizations.

VSM Wealth Advisory, LLC are fee only asset managers acting in a fiduciary capacity and do not receive or share in commissions or any other fees generated by client accounts. For qualified retirement accounts, VSM Wealth Advisory, LLC acts as a 3(38) level fee fiduciary under the Employee Retirement Income Security Act of 1974 (aka ERISA).

We do not have a requirement for opening and maintaining an account.

Item 8 – Methods Of Analysis, Investment Strategies And Risk Of Loss.

How We Manage Your Assets

We manage our client portfolios using a method known as asset allocation. Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash. The process of determining which mix of assets to hold in your portfolio is dependent upon your personal situation. The asset allocation that works best for you at any given point in your life will depend largely on your time horizon and your ability to tolerate risk.

Your time horizon is the expected number of months, years, or decades you will be investing to achieve a particular financial goal. Investors with a longer time horizon may feel more comfortable taking on a riskier, or more volatile, investment because they can wait out slow economic cycles and the inevitable ups and downs of markets. By contrast, an investor saving for a teenager's college education would likely take on less risk because he or she has a shorter time horizon for those funds.

Risk tolerance is your ability and willingness to lose some or all of your original investment in exchange for greater potential returns. An aggressive investor, or one with a high-risk tolerance, is more willing to risk losing money in order to get better results. A conservative investor, or one with a low-risk tolerance, tends to favor investments that are more likely to preserve his or her original investment.

A large part of our job is to construct an asset allocation that is appropriate for your particular situation and monitor the portfolio, addressing the need to rebalance. How your portfolio will be constructed will depend on various factors including your appetite for and your ability to shoulder risk, along with your needs and objectives. Your portfolio will consist of different asset classes. The construction and management of the portfolio is our responsibility. Your portfolio may have a varying degree of volatility and turnover. The value of your portfolio is subject to market conditions and you should expect it to fluctuate. No return can be guaranteed and it's important that you recognize that the possibility of principal loss does exist. It is also important to understand that risk and return are inextricably intertwined. Any opportunity to achieve high returns comes with high risk; any investment that carries less risk will also offer lower returns.

The Risk Involved With Your Portfolio

Every investment strategy or method carries risk. If you intend to purchase securities such as stocks, bonds, or mutual funds, it's important that you understand, before you invest, that you could lose some or all of your money.

With asset allocation the reward for taking on risk is the <u>potential</u> for a greater investment return. If you have a financial goal with a long time horizon, you are generally likely to make more money over the long term by carefully investing in asset categories with greater risk, like stocks or bonds, rather than restricting your investments to assets with less risk, like cash equivalents. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals. If you want the potential for high returns offered by stocks, you are going to have to pay for that opportunity by bearing risk. Stated plainly, in the course of pursuing those higher returns, your portfolio may suffer precipitous declines.

The value of your portfolio is subject to market conditions and you should expect it to fluctuate. To what degree it fluctuates will be dependent on how your assets are allocated among stocks, bonds and cash equivalents, as well as general market movement. No return can be guaranteed. Markets can and do go through extended periods producing low, no and negative returns (meaning, losses). It's important that you recognize that you can lose money.

The Type of Investments We Use for Your Portfolio

We primarily use index mutual funds and exchange traded funds when implementing our investment strategy. We may use a traditional open-end index fund, an exchange traded fund (ETF), and, in some situations, an inverse or leveraged index exchange traded fund. We also might use options on a limited basis.

Index Fund

An index fund is a type of mutual fund whose investment objective typically is to achieve approximately the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index or the Wilshire 5000 Total Market Index. Some index funds may track a particular country, region, or sector, such as China, Europe, or Energy. An index fund will attempt to achieve its investment objective primarily by investing in the securities (stocks or bonds) of companies that are included in a selected index. Some index funds may also use derivatives (such as options or futures) to help achieve their investment objective. Some index funds invest in all of the companies included in an index; other index funds invest in a representative sample of the companies included in an index. The management of index funds is more "passive" than the management of non-index funds because an index fund manager only needs to track a relatively fixed index of securities. This usually translates into less trading of the fund's portfolio, more favorable income tax consequences (lower realized capital gains), and lower fees and expenses than more actively managed funds. Because the investment objectives, policies and strategies of an index fund require it to purchase primarily the securities contained in an index, the fund will be subject to the same general risks as the securities that are contained in the index. Those general risks are the same as any stock funds and bond funds. In addition, because an index fund tracks the securities on a particular index, it may have less flexibility than a non-index fund to react to price declines in the securities contained in the index.

Exchange Traded Fund (ETF)

Another type of investment company that attempts to track the performance of a market index is an ETF. ETFs are legally classified as either UITs (unit investment trust) or open-end investment companies, but they differ from traditional UITs and open-end investment companies in a number of respects. Exchange Traded Funds are traded through a brokerage firm on a stock exchange. Shares of ETFs are traded with other investors who are also going through brokerage firms to facilitate their transactions. All-day trading makes ETFs more flexible than open-end mutual funds where investors must wait until the end of the day to buy and sell shares. ETFs do not necessarily trade at their net asset value (NAV) and cannot be redeemed at their NAV like an open-end fund. Hence, they may sell at a discount or premium to their NAV.

Inverse and Leveraged Exchanged Traded Funds

In special situations, we may use an inverse or leveraged ETF. Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track. Inverse ETFs (also called "short" funds) seek to deliver the opposite of the performance of the index or benchmark they track. Like traditional ETFs, some leveraged and inverse ETFs track broad indices, some are sector-specific, and others are linked to commodities, currencies, or some other benchmark. Inverse ETFs often are marketed as a way for investors to profit from, or at least hedge their exposure to, downward moving markets.

Leveraged inverse ETFs (also known as "ultra short" funds) seek to achieve a return that is a multiple of the inverse performance of the underlying index. An inverse ETF that tracks a particular index, for example, seeks to deliver the inverse of the performance of that index, while a 2x (two times) leveraged inverse ETF seeks to deliver double the opposite of that index’s performance. To accomplish their objectives, leveraged and inverse ETFs pursue a range of investment strategies through the use of swaps, futures contracts, and other derivative instruments.

Most leveraged and inverse ETFs "reset" daily, meaning that they are designed to achieve their stated objectives on a daily basis. Their performance over longer periods of time—over weeks or months or years—can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. This effect can be magnified in volatile markets. As the examples below demonstrate, an ETF that is set up to deliver twice the performance of a benchmark from the close of trading on Day 1 to the close of trading on Day 2 will not necessarily achieve that goal over weeks, months, or years.

The following two real-life examples illustrate how returns on a leveraged or inverse ETF over longer periods can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time.

Between December 1, 2008, and April 30, 2009, a particular index gained 2 percent. However, a leveraged ETF seeking to deliver twice that index's daily return fell by 6 percent—and an inverse ETF seeking to deliver twice the inverse of the index's daily return fell by 26 percent.

During that same period, an ETF seeking to deliver three times the daily return of a different index fell 53 percent, while the underlying index actually gained around 8 percent. An ETF seeking to deliver three times the inverse of the index's daily return declined by 90 percent over the same period.

How can this apparent breakdown between longer term index returns and ETF returns happen? Here's a hypothetical example: let's say that on Day 1, an index starts with a value of 100 and a leveraged ETF that seeks to double the return of the index starts at $100. If the index drops by 10 points on Day 1, it has a 10 percent loss and a resulting value of 90. Assuming it achieved its stated objective, the leveraged ETF would therefore drop 20 percent on that day and have an ending value of $80. On Day 2, if the index rises 10 percent, the index value increases to 99. For the ETF, its value for Day 2 would rise by 20 percent, which means the ETF would have a value of $96. On both days, the leveraged ETF did exactly what it was supposed to do—it produced daily returns that were two times the daily index returns. But, let's look at the results over the 2 day period: the index lost 1 percent (it fell from 100 to 99) while the 2x leveraged ETF lost 4 percent (it fell from $100 to $96). That means that over the two day period, the ETF's negative returns were 4 times as much as the two-day return of the index instead of 2 times the return. Greater leverage will magnify results, whether positive or negative. Greater leverage carries greater risk.

Leveraged or inverse ETFs carry higher expenses than traditional ETFs. In certain circumstances, they are less tax-efficient than traditional ETFs, in part because daily resets can cause the ETF to realize significant short-term capital gains that may not be offset by a loss.

When we buy any ETF or mutual fund you will be sent a prospectus by the broker-dealer. It's important to read the prospectus, which provides detailed information related to the ETF's or mutual fund's investment objectives, principal investment strategies, risks, and costs. <u>Always read the prospectus.</u>

Options

We sometimes use options to hedge existing positions and as a tool to give our portfolios limited protection from steep market declines. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date. An option, just like a stock or bond, is a security. It is also a binding contract with strictly defined terms and properties; based on the exchange where the option is listed. The purchase of an option is an added cost to your portfolio (more on the risk of options below).

There are two types of options: calls and puts.

> A call gives the holder the right to buy an asset at a certain price within a specific period of time.

A put gives the holder the right to sell an asset at a certain price within a specific period of time.

Below are the strategies which we use.

Covered Call Writing

This strategy is used to enhance portfolio income and offer some protection against loss. The owner of 100 (or more) shares of a security sells (writes) a call option against that security. The option buyer pays a premium, and in return gains the right to buy those shares at an agreed upon price (strike price) for a limited time (until the option expires). If the security undergoes a significant price increase, however, the option holder almost certainly will exercise the option and buy the security for the strike price. Thus, the risk of selling covered calls is that the seller will sacrifice the potential for profiting by an increase in the price of the security over the strike price. The potential benefit of selling covered call is that if the price of the security remains below the strike price, the option will not be exercised by its holder, and the option writer will profit by the amount of the premium received upon the sale of the option. That cash increases the portfolio's income and offers some protection against a decline in the price of the security. Thus, by selling covered calls, the owner of the security (the covered call writer) sacrifices the possibility of earning profits over and above that previously agreed-upon price in exchange for the immediate cash payment.

Put Hedging

Put options grant the owner of the underlying security the right to sell shares of the security at the strike price. Hedging with a put does not necessarily provide 100 percent protection, but it can limit losses to a set percentage amount. It's similar to buying an insurance policy with a deductible. The advantage of buying a put hedge is that losses can be limited. By selecting the appropriate strike price for the underlying security you are protected by a specific selling price, thus helping to protect the value of your portfolio.

The Collar

This is another strategy for protecting portfolio value against a market decline. It may also be used to lock-in profits from an existing position. The collar is a combination of the two methods noted above. To build a collar, the owner of 100 shares buys one put option, obtaining the right to sell those shares, and sells a call option, granting someone else the right to buy the same shares.

Cash is paid for the put at the same time cash is collected when selling the call. Depending on the strike prices chosen, the collar can often be established for zero out-of-pocket cash. That means the investor is accepting a limit on potential profits in exchange for protection of the value of his or her holdings.

The risk of buying an option (as you would with a put hedge or a collar) is losing the entire amount paid for the option in a relatively short period of time. This risk reflects the nature of an option as a wasting asset which will become worthless when it expires. An option holder who neither sells nor exercises it prior to its expiration will lose the entire amount paid for the option. When your account is approved for option trading, you will receive from the broker-dealer a disclosure document called, "Characteristics and Risk of Standardized Options." This provides more detailed information regarding the risks of options trading. Please read it carefully.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of its management. VSM has no information which is applicable to this Item.

Item 10 – Other Financial Industry Activities And Affiliations

This Item requires advisors to disclose if they have affiliations with other financial industry participants. VSM has no information to disclose in this Item.

Item 11 – Code Of Ethics, Participation Or Interest In Client Transactions, And Personal Trading

We have adopted a code of ethics for our employees and any related persons. Our success depends on our clients and the public's confidence in our integrity and professionalism. To ensure and maintain that confidence our behavior and actions must be above reproach. We must always strive to avoid activities, interests, and relationships that would be a conflict of interest between ourselves and our client(s). When a conflict of interest between ourselves and our client(s) is unavoidable it is important that we acknowledge it, address it, and inform our client(s) that it exists. Our code of ethics addresses issues such as: safeguarding of client information, recognizing the need for client privacy, maintaining confidentiality of all client records, and the buying and selling of securities by our employees or anyone related to them for their personal accounts. In essence, the duty to place the interest of our clients comes first at all times. We will provide a copy of our code of ethics to any client or prospective client upon request.

We do not have or maintain any material interest in any securities, partnerships, or investment companies.

As individuals, our representatives are permitted to invest in the same securities that we recommend to our clients. When they do, we require that all personal securities transactions be conducted in such a manner as to be consistent with our code of ethics and to avoid any actual or potential conflict of interest. When there is an event or major change in the vast majority of our clients' portfolios that involves a specific security, we may place that security on our "Restricted List". When a security is placed on the "Restricted List" it will be at the direction of the Chief Compliance Officer (CCO) or designee. When a security is placed on the "Restricted List," all employees or related persons are prohibited from engaging in any transactions in that security until the restriction is lifted.

Sometimes individual representatives buy or sell, for their personal or related accounts, the same securities that we recommend for our clients at or about the same time. This could present a conflict of interest. We have policies in place that address such situations. Should this occur, the client will always be allocated the best execution price. It is our policy that all trading in employee or employee related accounts is recorded, reviewed and approved by the Chief Compliance Officer (CCO) or designee on a daily basis. No employee or employee-related account is permitted to trade or give the appearance of trading against client accounts -- that is, putting their personal interest before yours.

Item 12 – Brokerage Practices

The Custodian and Brokers We Use

We do not maintain custody of your assets that we manage and upon which we advise, although we may be deemed to have custody of your assets if you give us authority to withdrawal assets from your account (see Item 15 – Custody). Your assets must be maintained in an account at a "qualified custodian", generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Charles Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we or you instruct them to do so. While we recommend that you use Schwab as custodian/broker, you will decide whether to do so. The choice of another custodian must be mutually agreed upon by both you and us. If we do not mutually agree upon a custodian, then we cannot manage your account. You will open an account with Charles Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below ("Your Brokerage and Custody Cost").

How We Select Brokers/Custodians

We select a custodian/broker-dealer who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)

- The capability to execute, clear, and settle trades (buys and sells securities for your account)

- The capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)

- Breadth of available investment products (stocks, bonds, mutual funds, exchange traded funds [ETFs], etc.)

- Availability of the lowest-cost share classes of mutual funds and ETFs

- Availability of investment research and tools that assist us in making investment decisions

- Quality of service

- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices

- Reputation, financial strength, and stability

- Prior service to us and our other clients

- Availability of other products and services that benefit us, as discussed below (*see* "Products and Services Available to Us From Schwab," below)

Your Brokerage and Custody Cost

For our clients' accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle in your Schwab account. Certain trades (many mutual funds, ETFs and common stock) do not incur Schwab commissions or transaction fees. Schwab is also compensated by earning interest on the un-invested cash in your account in Schwab's Cash Features Program. Schwab's commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least $10 million of their assets in accounts at Schwab. This commitment benefits you because the overall commission rates you pay are lower than they would be otherwise. In addition to commissions, Schwab charges you a flat dollar amount as a “prime broker” or trade away fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “How We Select Brokers /Custodians”).

Products and Services Available to Us From Schwab

Schwab Advisor Services™ is Schwab’s business serving independent investment advisory firms like ours. They provide us and our clients with access to its institutional brokerage trading, custody, reporting, and related services many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while others help us manage and grow our business. Schwab’s support services generally are available on an unsolicited basis (we don’t have to request them) and at no charge to us. Following is a more detailed description of Schwab’s support services:

Services That Benefit You

Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab’s services described in this paragraph generally benefit you and your account.

Services That May Not Directly Benefit You

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients’ accounts. They include investment research, both Schwab’s own and that of third parties. We may use this research to service all or a substantial number of our clients’ accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)

- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts

- Provide pricing and other market data

- Facilitate payment of our fees from our clients' accounts

- Assist with back-office functions, recordkeeping, and client reporting

Schwab Services That Generally Benefit Only Us

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events

- Consulting on technology, compliance, legal, and business needs

- Publications and conferences on practice management and business succession

- Access to employee benefits providers, human capital consultants, and insurance providers

- Marketing consulting and support

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

Our Interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least $10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The $10 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How We Select Brokers/Custodians") and not Schwab's services that benefit only us. We have over $357 million of client assets under management, and we do not believe that recommending our clients to collectively maintain at least $10 million of those assets at Schwab presents a material conflict of interest.

Research and Other Soft Dollar Benefits

We do not receive research or other products or services other than execution from a broker-dealer or third party in connection with client securities transaction. In exchange for receiving research or other products some advisors will place their clients' trades through a specific broker-dealer. This can result in having the clients pay a higher rate of commission or mark-up in the securities they purchase. Such a practice is known as "soft dollar benefits". We do not participate in or receive soft dollar benefits.

Brokerage for Client referrals

We do not receive or participate in any client referral program with any broker-dealer or third party. A client referral program is where an advisor will receive referrals from a broker-dealer or some third party in exchange for the advisor using that broker-dealer or the third party's services. We do not participate in any such programs.

Directed Brokerage

We do not participate in directed brokerage or permit clients to do so. Directed brokerage is when a client requests or requires us to execute transactions for their account through a specified broker-dealer other than the broker-dealer who has custody of the account. By allowing directed brokerage we may be unable to ensure the most favorable execution of client transactions. This would also mean extra cost for the client. We do not participate in directed brokerage or permit clients to do so.

Aggregating Orders for Client Accounts

When purchasing or selling securities for client accounts, we sometimes have the opportunity to aggregate or "bunch" the orders. Aggregating or bunching orders happens when the same security is going to be bought or sold for various client accounts. Instead of separate trades being placed for each individual account, one large "block" order is placed and executed. If the execution price varies, the total sum of the order is calculated and an average price is determined. This is done to ensure no one client is favored over another. The securities are then allocated to the client accounts. Generally, aggregating or bunching orders results in a better execution for the clients.

Item 13 – Review Of Accounts

The investment counselor assigned to your account provides continuous and regular supervision and management of your portfolio.

The Chief Investment Officer (or his designee) or the Chief Compliance Officer (or his designee) reviews client accounts monthly for cash flows and net returns for the period. In addition, we may review accounts at any time for various reasons such as market volatility, change in interest rates, geo-political events, or if the client notifies us of material changes in the client's situation that would affect the way the portfolio is being managed. It is the client's responsibility to notify us of material changes in the client's financial situation, investment needs, goals, or risk tolerance. In addition, the client may request a review at any time.

We issue quarterly portfolio reports for each client account for which we provide portfolio management services. This report is divided into three segments:

1. The Portfolio Statement which provides description of the investment, the percentage weighting of the investment, the quantity, cost basis, current value, and unrealized gain or loss.

2. The Portfolio Performance Summary which provides (one year and year to date) the beginning value of the portfolio, net contributions, ending value, investment gain or loss, and percentage return for the period.

3. The Billing Statement which provides an itemized account of how your management fee was calculated for the period (see Fees and Compensation).

Other reports are available upon request, such as: Realized Gains and Losses, Income Report, Expense Report, and Deposit/Withdrawals.

The custodian statements are the official record of your account. You should compare the statement you receive from the custodian (in most cases that will be Charles Schwab) of your account with the reports you receive from us. If there are any discrepancies or if there is something you do not understand you should contact us or the custodian promptly to get clarification. There is no such thing as a dumb question when it comes to your money.

Item 14 – Client Referrals And Other Compensation

We receive an economic benefit from Charles Schwab. This benefit is in the form of the support products and services Schwab makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described in Item 12 (Brokerage Practices). The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

We do not compensate any person or other entity for client referrals.

Item 15 – Custody

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab to deduct our advisory fees directly from your account or if you grant us authority to move money to another person's account.

Schwab maintains actual custody of your assets. You will receive account statements directly from Schwab at least quarterly. They will be sent to the email or postal mailing address you provided to Schwab. The custodian's statements are the official statement of your accounts and holdings.

We do not allow nor do we endorse third-party standing letters of authorization.

When you receive your statement from Charles Schwab or another qualified broker-dealer you should review it carefully. You should compare and reconcile the statement with the quarterly one you receive from us. Please notify us and/or the custodian promptly if you identify any discrepancy.

Item 16 – Investment Discretion

We accept and use discretionary authority to manage accounts on behalf of our clients. When you grant us discretion you authorize us to buy, sell or otherwise trade securities or other investments in your account without discussing these transactions with you in advance. Such securities may include, but are not limited to, stocks, bonds, no-load mutual funds, exchange traded funds, money market mutual funds, options, foreign securities, and securities of the U.S. government and its agencies. In essence, this gives us full decision-making authority regarding investments and transactions in your account. It also authorizes us to take any other necessary action in connection with the completion and payment of transactions in your account.

While we have discretion in your account, you may choose to have varying levels of involvement with the management of your portfolio. In some cases you may choose to place restrictions on your account regarding specific securities or investment vehicles. If you choose to place any restrictions or limitations you must do so in writing.

When you open an account with the broker-dealer that has custody over your assets (in almost all cases that will be Charles Schwab) you will authorize them to grant us discretion on your behalf. Generally this authorization will be encompassed in the new account agreement that you sign when opening your account with the broker-dealer. Sometimes it might be a separate document. It may appear as "Limited Trading Authorization," "Trading and Disbursement Authorization," or "Trading Authorization." You should review it carefully for a full understanding of what it authorizes us to do on your behalf.

Item 17 – Voting Client Securities

The act of managing assets for our clients may include the voting of proxies related to securities held in their accounts. You have the option to delegate that authority to us or to do it yourself.

Where the power to vote by proxy has been delegated to us, we have the responsibility for voting in a manner that is in your best interests. Should a potential conflict of interest arise from the proxy proposals being voted upon, we will inform you and allow you to direct the vote. It is our policy to vote proxies related to securities held in the accounts of our clients in a manner that is in their best interest. We keep certain records required by applicable law in connection with our proxy voting activities for our clients. We will provide this proxy-voting information to you upon request. We also have a written policy for voting proxies and will provide this to you upon request.

If we do not have the authority to vote proxies on your behalf, you will receive the proxy statement and related information directly from the custodian of your account. If you have questions about a particular solicitation, you may contact us and we will attempt to help you or provide clarification on the issues.

Item 18 – Financial Information

This Item requires us to disclose certain financial information in certain circumstances, which are not applicable to us. Specifically:

If an adviser requires or solicits prepayment of more than $1,200 in fees per client, six months or more in advance, they must provide a balance sheet for their most recent fiscal year. We do not engage in this practice.

An advisor is required to disclose any financial condition that is reasonably likely to impair their ability to meet contractual commitments to clients. We suffer from no such condition.

An advisor is required to disclose if they have ever been subject to a bankruptcy petition. We have never been subject to a bankruptcy petition.