

# **Docsa Capital Management, Inc.**

## **ADV Part 2A**

CRD: 124302

### **Docsa Capital Management, Inc.**

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# **Docsa Capital Management, Inc.**

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**March 30, 2023**

This Brochure provides you information about the qualifications and business practices of Docsa Capital Management, Inc. (referred to in this Brochure as “us,” “we,” “our,” or the “firm”). Note: From time to time, we may refer to ourselves as Docsa Capital Management, Inc. or for brevity, use the abbreviation “DCMI” in internal documents.

If you have any questions about the contents of this Brochure, please contact us at the phone number indicated above. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

We are a registered investment adviser. Registration of an adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

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

**ITEM 2 - SUMMARY OF MATERIAL CHANGES**

This section summarizes material changes that have been made to our brochure since the last version, dated March 30, 2022. If you are receiving this brochure for the first time, this section may not be as relevant, because the information is already included in this brochure.

- **Item 4 - ADVISORY BUSINESS**

- The amount of discretionary and non-discretionary assets that we manage for our clients has been updated for the year ending December 31, 2022.

- **Item 5 – FEES AND COMPENSATION**

- We changed the installment billings on our *Financial Planning and Modular Reviews* and projects from two to three payments.
- The *General Investment Management Fee Policy* section includes an added disclosure that your cash and cash-equivalent holdings are considered part of the fixed income asset class that we manage for you, and therefore is included in our fee calculation.
- Our fee schedules for the *Financial Planning, Modular Reviews, and Consulting Services* and for *Portfolio Management Services* have been updated, effective April 1, 2023.

- **Item 12 – BROKERAGE PRACTICES**

- In the Our Interest in Schwab Services section, we updated the description about Schwab’s current trade order routing practices as related to our duty of “best execution” for you.

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**ITEM 4 - ADVISORY BUSINESS****OUR OWNERS AND PRINCIPALS**

Established in 1987, Docsa Capital Management, Inc. is an independent, fee-only financial advisory firm registered in the states of Michigan, Florida and California. We offer personalized financial planning and portfolio management services to individuals, small business owners, trusts, and estates. We believe in finding sensible and balanced strategies that are in your overall best interest. We do not sell any products, nor do we accept any referral fees, payments from companies, or compensated for transactions we recommend. Our compensation is strictly from professional fees you pay us.

Timothy J. Schauer, CFA®, CPA is Principal, Co-Compliance Officer, and sole shareholder of the firm's common stock. Sophit Lee, CFP® is the Managing Director and Chief Compliance Officer. Our main office is located in Michigan, with a satellite operations office in Florida, where Sophit Lee, CFP® resides.

**OUR ADVISORY SERVICES**

During the initial no-obligation meeting, we will listen to you, and answer your questions about who we are, how we work, and the scope of what we can do for you. Our advisory services begin with discussions about your vision, goals, hope, and dreams. The information you provide will further help complete your profile which include, risk tolerance, time horizon, income estimates, tax situation, financial, or investment experience. We use this information to evaluate and create personalized, integrated investment and financial planning strategies for implementation.

We work as part of your professional team. We do not offer or dispense legal advice or represent you on tax matters. You are advised to consult your legal and tax advisors on pertinent topics before making your decisions on related items that may appear in your financial plans.

**I. Financial Planning Services**

Our financial planning services include but are not limited to the following:

- Help you refine your short- and long-term financial goals.
- Retirement projections, review and income planning.
- Cash flow projections.
- Social Security benefits claiming strategies.
- Tax analysis and planning.
- Portfolio review.
- Employee stock option review.
- Employee benefits and employer retirement plans reviews.
- Executive compensation planning.
- Education funding.
- Small business retirement plans consulting.
- Basic education and overview of insurance and estate planning topics.
- Comprehensive financial plans.
- Review and update prior financial plans.

For financial planning services, you can choose a modular approach by focusing on a particular area or a broader, more integrated financial review that covers multiple topics. You can work with us on a short-term basis without hiring us for portfolio management services. Our planning projects generally include in person or virtual meetings, phone and email correspondence. We will devote time to discussing your materials, reviewing findings from your risk tolerance exercise, and exploring your vision, wishes and what you want to see accomplished. After analysis and evaluation of your situation, we will present you with a summary of the findings, potential decision points, possible strategies (including their pros and cons), recommended course, and action items. During the project period, you have the responsibility to notify us if there are changes to your personal or financial situation, risk tolerances, or investment objectives.

After the plan presentation, there is a follow-up period before the project formally concludes. After that, you determine when to return for periodic updates or check-ups on a specific part, or on the entire plan. If you wish to extend our follow-up period, you can consider our **Opal Plan** (limited service), outlined in the portfolio management services section and in our fee schedule.

Alternatively, the **Diamond Plan** option (see below) in our portfolio management services section includes limited, basic support services. Portfolios with balances over \$300,000 are eligible for the more extensive financial reviews and retirement projections, as well as ongoing monitoring and access to our ongoing financial planning services. Under the **Diamond Plan**, either you or we may initiate the periodic updates of the financial review as needed.

## II. Portfolio Management Services

Our portfolio management services provide highly personalized, discretionary investment management services to individuals, small business owners, trusts, and estates. Whether you are in your accumulation stage of saving for retirement or already a retiree, we can design and implement a portfolio that fits your profile. We invest substantial time and energy upfront in learning about you and discussing your objectives and personal situation. We endeavor to thoroughly assess your financial picture, personal concerns, risk tolerance, and how much financial risk you can take. Combining the information you provide with the information gleaned from a more formal risk analysis and coaching session, we develop the core strategy that will direct the design of your investment portfolio.

We also recognize that personal preferences may vary regarding the level of help you need from us in implementing a plan. Depending on your personal preference, investment philosophy, or where you have your accounts, we offer you three different service options:

- **Diamond Plan.** This plan has two levels. The full-service level includes customized design and active portfolio management, plus in-depth retirement projections, financial reviews and ongoing reviews tailored to your life situation, goals, and risk profile. The full-service level is automatically included for portfolios with balances of at least \$300,000. Investments may include (but are not limited to) stocks, preferred stocks, bonds, mutual funds, and exchange traded funds. The basic level is for managed portfolios with balances below \$300,000. It includes active portfolio management with limited support services and no financial planning services.
- **Topaz Plan.** A limited-service plan using passive, indexing strategy. Portfolios are generally placed in one of our pre-determined asset allocation models using index mutual funds or exchange-traded funds. Financial planning and support services are **not** included. You can pay for these services when you need them.
- **Opal Plan.** A limited-service plan, designed to give our modular project clients the option to extend our follow-up period. This plan is also designed for the limited investment management of accounts held at certain non-preferred custodians. For this limited service, we use only the securities available on the

account custodian's platform, and the custodian must support a separate account interface for financial advisors. This service does not include DCMI's semi-annual account reports, financial planning or support services, unless they are separately priced and negotiated.

### III. Consultation Services

We also provide consulting services for small business retirement plans. Our services include:

- Small business retirement plans review (SIMPLE, SEP, 401(K)).
- Plan recommendations.
- Assistance in selecting plan providers, custodians, and/or third-party administrators.

We do not serve as a retirement plan's administrator or record keeper.

### ASSET UNDER MANAGEMENT

As of December 31, 2022, we had approximately \$67,347,244 in total assets under our management. Of the total, \$64,788,267 was on a discretionary basis, and \$2,558,977 on a non-discretionary basis.

## ITEM 5 - FEES AND COMPENSATION

### I. FINANCIAL PLANNING, MODULAR REVIEWS, AND CONSULTING SERVICES

#### General Policy for Financial Planning, Modular Reviews, and Consulting Services

If you prefer to work with us on a short-term basis, we will provide a written quote for the project, including the length of the follow-up period. Our written quote is valid for 30 days from the initial introductory meeting date. After 30 days, we reserve the right to re-evaluate the cost of the services and/or adjust the quote based on the prevailing fee schedule that may have gone into effect after our initial meeting with you.

Our current fee schedule for *Financial Planning, Modular Reviews, and Consulting Services* (shown later in this section) lists the minimum fees for the key financial planning modular services, subsequent check-ups, and limited consulting services. Your quoted fee may be higher than the minimum rate for each service, if the scope of your review exceeds our package's parameters. Generally, the quote for your project will depend on your individual circumstance, such as: types and number of investments, estimated additional time involved, complexity of additional requested services, or additional resources required.

Our quote and Project Agreement together provide details of the project, including the scope of the topics to be covered, your fee, payment terms, and any included follow-up period. The stated fee in the Agreement will remain in effect, regardless of any subsequent increases in our published fee schedule, unless additional work is requested. We do not require prepayment or advance fees for our services. All billings are based on work done, time spent and services rendered to that point. As such, we do not collect any fees in advance.

Fees for most modular financial planning services typically include a minimum of two in-person or virtual working sessions (exclusive of the initial get-acquainted meeting), a report or summary, and a follow-up period. We will devote time to discussing your materials, reviewing findings from your risk tolerance exercise, and exploring your vision, wishes, and what you hope to accomplish. After analysis and evaluation of your situation, we will present a summary of the findings, potential decision points, possible strategies (including their pros and cons), and recommended course as well as suggested action items.

At our discretion, we may offer some follow-up to our Financial Planning and Modular reviews at an hourly rate or a mix of fixed fee and hourly project rate. You will receive a written quote detailing the scope, cost and terms before you engage our service(s).

Project fees are due in arrears generally in three installments as follows: 30%, 30%, 40%. The first invoice for phase 1 of the project is billed at the end of the first scheduled working meeting, which can be in a format or venue that is mutually agreeable between you and us. The second invoice for phase 2 will follow at the intermediate point of the project, generally when we have a preliminary set of findings to discuss with you before we finalize the scenarios or review. The balance of the fee is due at the end of the plan presentation session, which is scheduled as soon as your case is complete. For projects with very short time span or for some check-ups, the entire balance is due at the end of the presentation meeting or when the work is delivered to you, which may be earlier than the regular 3-payment schedule. We do not require prepayment, deposits, or advance fees for our services. All billings are based on work done, time spent and services rendered to that point. As such, we do not collect \$500 or more six months or more in advance.

The project fee you pay is only for our services. It is separate from other investment-related or implementation costs. For example, you may have to pay commissions or transaction fees to your account custodians to buy or sell individually listed securities, such as stocks, bonds, preferred shares, etc. You may also pay transaction fees to buy or sell some mutual funds that are not on the custodian's "no-transaction fee" list. Mutual funds and exchange-traded funds (ETFs) also have embedded management and marketing fees. If you decide to follow certain recommended changes, some financial firms servicing your accounts may impose various charges. For example, your brokerage firm may charge a fee when you transfer securities out or close your existing account(s).

We do not receive any compensation from investments commissions or transactions we recommend for you. We also do not receive compensation from our referrals. Therefore, we always strive to find sensible and balanced strategies that are in your overall best interest.

### **Ability to Negotiate Fees**

We may negotiate our modular service fees, based upon individual circumstances, the complexity of services or additional resources required. At our discretion, we may offer discounts to clients who return frequently for check-ups or apply the cost of the project fee toward our **Diamond Plan**'s full-service tier of the portfolio management fee, as specified in our project client agreement and/or final invoice.

### **Client Agreement Effective Period and Termination**

Our Project Agreement for modular financial planning services is effective for the duration specified in each agreement. Either you or we may terminate the Project Agreement without charge within five (5) business days of signing the agreement. After five (5) business days, you are responsible for a prorated fee, based upon the amount of work we have performed up to the date of cancellation. An exception to the prorated billing policy is *if* the work we have done is substantially complete and a draft of the review is already under review. In this situation, you will be billed the full quoted fee, less any amount that you have already paid. Our client agreement automatically terminates upon client's death. Continuation of the agreement would need to be renegotiated by the estate's personal representative. The estate is responsible for a prorated cost of the services we rendered up to the date of death.



**Basic Fee Schedule: Financial Planning, Modular Reviews, and Consulting Services**

Services	Minimum Fee	Updates (Minimum)
<b>Basic Review Package:</b> Retirement, Cash Flow, Education, Basic Tax, Portfolio*, general comments on Insurance and Estate Plan + Follow-Up. *Basic Package includes up to 12 securities. Additions to the Basic Reviews Package (Items beyond the package coverage) Individual Stocks Individual Bonds Exchange Traded Funds & Mutual Funds Annuities Basic Employee Restricted Stock Basic Employee Stock Options	\$3,250          \$25/stock \$25/bond \$20/fund \$80/policy \$275 \$500	\$2,375
<b>Comprehensive Financial Plan Package:</b> [Basic Package with more complexities and in-depth contents.]	\$7,150	\$5,225
<b>Single Module:</b> Portfolio Review Only: Basic Review (up to 12 securities) + Follow-Up.	\$1,500	\$975
<b>Single Module:</b> Single Investment Account Review + Follow-Up.	\$950	\$650
<b>Single Module:</b> Social Security Planning <i>or</i> College Funding + Follow-Up.	\$950	\$650
<b>Single Module:</b> Employee Stock Options Only + Follow-Up. Beyond Basic: Employee Stock Options + Follow-Up.	\$1,425 \$2,350	\$975 \$1,625
<b>Single Module:</b> Cash Flow, Personal Residence Mortgage Review, etc. + Follow-Up.	\$1,075	\$750
<b>Single Module:</b> Beyond Basic: Tax Analysis and Planning – Individuals Beyond Basic: Tax Analysis and Planning – Small Business	\$350 \$575	\$350 \$575
<b>Consulting Services:</b> Small Business Retirement Review	\$1,450	\$1,450
<b>Other:</b> Planning/consulting services that do not fit above categories: \$250/hour (Min. 3 hours)	\$750	\$750

**General Policy**

Our written quote is valid for 30 days from the initial introductory meeting date, after which we reserve the right to re-evaluate the cost of the services and/or adjust the quote using the prevailing fee schedule that may have gone into effect after the initial meeting. We do not require prepayments or advance fees. All billings are based on work and time spent and services rendered. We do not collect \$500 or more six months or more in advance. Agreement for modular financial planning services is effective for the duration specified in each agreement. Either party may terminate the project within five (5) business days of completing the Client Agreement without charge. After this date, you are responsible for a prorated fee based upon the amount of work done up to the date of cancellation. An exception to the prorated billing policy is *if* our work is substantially complete and a draft of the review is already under review. In this situation, you would be billed the quoted fee, less any amount already paid. Payments for project services are generally due in two installments as outlined below.

Payment	Amount	Terms
1	30% of the total balance*	At the end of the first working meeting for work done to date.
2	The remaining balance*	Due at the end of the plan presentation meeting.
*Late Fee:	1% per month on outstanding balance	Applicable if not paid after 35 days from original invoice date.
Insufficient Fund	\$30	Plus original invoice amount + late fee, if applicable.

## II. PORTFOLIO MANAGEMENT SERVICES

Our portfolio management services typically include a review of your financial profile, your risk tolerance, anticipated cash needs or savings, tax profile, and your personal goals and objectives. We use these components to determine the portfolio design, asset allocation, investment strategy(ies), and how your portfolio needs to be managed. Financial planning and/or retirement reviews are included only in the **Diamond Plan** portfolios with balances over \$300,000.

### General Investment Management Fee Policy

Our standard fees for portfolio management services are listed on our **Portfolio Management Fee Schedule** (next page). Fees and specific services are dependent on the type of portfolio management plan. All fees are billed and charged after services are rendered. There are no advance fees. We do not collect \$500 or more in deposit six months or more in advance.

The specific manner in which we charge fees is established in our written agreement with you. You will receive a copy of our invoice for each account, and we encourage you to regularly review it.

Fees for the **Diamond** and **Topaz** plans are computed based on the account balance at the end of each calendar quarter and the actual number of days in the billing period. Our basic fees are calculated as follows:

$$(\text{Annual Rate}/4) \times (\text{Account Balance at Quarter-End})$$

We prorate fees for deposits and withdrawals during the quarter, as well as our management fees on new accounts during the first quarter. Proration is based on when funds or securities arrive in the accounts. The adjusted calculation for proration is:

$$(\text{Annual Rate}/4) \times (\text{Account Balance at Quarter-End}) \times (\text{Days Funds Are In Account} / \text{Total Days in Quarter})$$

Any adjustments are then added or subtracted from the calculated total.

For fee calculation purposes, a calendar quarter is a period beginning on January 1, April 1, July 1, or October 1 and ending on the last day of the quarter. A day is any calendar day including weekends and holidays.

Portfolio management fees for the **Diamond** and **Topaz Plans** are charged quarterly in arrears (after services are rendered), and are debited directly from each account in the month following the end of each quarter. While you may elect to pay our fees via a check, there is an additional quarterly processing fee for the manual, direct billed option. The current surcharge amount is listed in our fee schedule on the next page.

Under the automatic management fee payment option, you provide written authorization permitting us to request and the custodian to deduct our fees from your accounts. You will receive an invoice for each account, detailing our management fee, including the formula used to calculate the fee, the account balance which the fee is based, and the time period covered by the fee. You are urged to compare the custodian's statements and our invoices. If you find any inconsistencies, we urge you to contact us immediately. Our invoice will remind you that you have an opportunity to question or object to the invoiced amount, as well as the manner in which you can contact us to discuss the matter. You may change how you pay us any time by notifying us.

Fees for the **Opal Plan** are based on the amount specified in the client agreement for that plan, and are also charged after services are rendered. Invoices are sent directly to you following the end of each quarter. An automatic debit can be arranged, if your account custodian provides the service.

We manage the cash and cash equivalents (e.g. CDs, money markets, T-Bills etc.) in your portfolio as part of your fixed income asset class. All cash and cash equivalent positions are included for calculating our management fee.

Depending on your cash needs, planned withdrawal, and risk tolerance, we may maintain a higher cash level for portfolio defense, portfolio reinvestment, and your planned withdrawals. Cash holdings in a portfolio could result in lower overall performance, compared to a portfolio that is 100% invested in stocks during times of stock market advances. Conversely, cash could help lower losses during declining markets.

**Fee Schedule: Portfolio Management Services**

I. **Diamond Plan:** Full Service, Active Portfolio Management Approach

Consolidated Portfolio Balance	Annual Rate <sup>1,2,3</sup>
< \$1,000,000.00	0.95%
\$1,000,000.00 - \$2,999,999.99	0.75%
\$3,000,000.00 +	Negotiable
Accounts with 100% in fixed income investments	First 2 years, follow above schedule. Thereafter: 0.75% or less.

1. Surcharge on non-automatic debit option: \$25 per quarter. Invoice is due within 30 days.  
 2. Late Fees: 1% per month on the outstanding balance. Applicable after 35 days from original invoice date.  
 3. Retirement projections and in-depth financial reviews are included for portfolios with balances over \$300,000.

II. **Topaz Plan:** Limited Service, Passive Portfolio Management Approach, Financial Planning Not Included

Consolidated Portfolio Balance	Annual Rate <sup>1</sup>
< \$2,999,999.99	0.35% + minimum set up fee of \$700 in the first year, payable in arrears of the 1 <sup>st</sup> billable quarter.
\$3,000,000.00 +	Negotiable
<sup>1</sup> - Surcharges	Same schedule as under the Diamond Plan.

III. **Opal Plan:** Limited Service

Services	Annual Rate <sup>4</sup>
Extended follow-up consultation for Project Clients Up to 5 hours per year	Minimum: \$900 Additional Time: \$250/hour <sup>4</sup>
Limited management of investment accounts + up to 3 hours of time per year for discussions or consultation.	Minimum: \$900 Each additional new account: \$225 Additional Time: \$250/hour <sup>4</sup> One-time set up fee <sup>4</sup> : \$325 (see waiver qualifications below)

- No portfolio minimum requirement.
- Set-up fee waived for recent Project clients or clients who are in the Diamond or Topaz Plan.
- Separate fees for additional services, such as financial planning, custom reports, etc.
- 4. Fees are charged in arrears after services are rendered. Invoice is due within 30 days. Late Fees: 1% per month on the outstanding balance, applicable after 35 days from original invoice date.

**General Policy**

All fees are billed quarterly in arrears. We do not charge or collect \$500 or more six months or more in advance. Fees for the **Diamond** and **Topaz Plans** are generally debited directly from each account. Fees are computed based on the account balance at the end of each quarter. Prorated fees are adjusted for deposits and withdrawals during the quarter. Fees for the **Opal Plan** are generally billed separately each quarter. An automatic debit can be arranged, if the custodian supports that service. Additional charges may be applicable as outlined above.

## Ability to Negotiate Fees

At our discretion, we may negotiate our fees based on a number of factors, including (but not limited to), aggregate value of related accounts, types of investments, complexity of services, additional resources required, longevity of the relationship, types of services previously rendered, or prior agreements. We may also adjust our fees in some accounts to reflect certain expenses incurred in your account, or payments you made during certain short-term projects. We will provide a written notice at least thirty (30) days in advance of any fee increase.

## Other Fees and Expenses

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs which you may incur. Custodians and other third parties may impose certain charges, such as fees charged by the Securities and Exchange Commission (SEC), external fixed income brokers, mutual fund managers, brokerage custodial fees, transfer fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, other miscellaneous fees on brokerage accounts and securities transactions. We do not receive any compensation from these other expenses and charges.

Mutual funds, index funds and exchange-traded funds of all types charge their shareholders various fees and expenses associated with the establishment and operation of the funds. Each fund's prospectus describes these fees and expenses, which generally include a management fee, shareholder servicing, portfolio transaction costs, other fund expenses, short-term trading penalty, and sometimes a distribution fee. While we recommend only no-load or load waived mutual funds, if you come to us already owning mutual funds bought from a broker, and transfer them to our advisory account, you may also pay a sales charge or be assessed a deferred sales charge upon liquidation. These separate mutual fund fees are disclosed in each fund's current prospectus, which is available from the mutual fund and, upon request, from us.

Consequently, for any type of mutual fund investment, it is important for you to understand that you are directly, and indirectly, paying two levels of advisory fees and expenses: one layer of fees at the fund level and one layer of advisory fees to us. Generally speaking, most mutual funds may be purchased directly without using our services and incurring our advisory fees. Many mutual funds also pay shareholder servicing fees (12b-1 fees) to brokerage firms and their registered representatives in consideration of their services to the fund's shareholders. We do not receive this type of compensation with respect to clients who invest in these funds. Additionally, due to regulations under the Employee Retirement Income Security Act of 1974, 12b-1 fees are refunded or offset to the qualified retirement accounts and not received by the custodian/broker-dealer.

## Client Agreement Renewal and Termination

Your portfolio management agreement and fee schedule will remain in force until there is a change with proper written notice from either party. You may terminate our portfolio management agreement without penalty with at least seven (7) days' written or verbal notice. We will prorate our fee be through the date of termination. We may also terminate our service agreement upon seven (7) days' written notice to you.

Our client agreement automatically terminates upon your death. Continuation of the agreement would need to be renegotiated and authorized by the personal representative of your estate. Your estate representative is responsible for paying the prorated management fees for services we have rendered up to the termination date. Final billing may include adjustments for the initial set up fee or credits for fees you have already paid us. Please see our fee schedule for details. Payment for the final bill may be done via direct debit from your managed accounts, check, or other reasonable means that you arrange.

**ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

We do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of your assets), nor do we accept management based on performance. This would pose a significant conflict of interest to you, because performance-based fees could potentially favor such accounts over the accounts of clients under our standard advisory programs. We endeavor to uphold our fiduciary duty to you by minimizing and avoiding conflict of interests whenever possible.

**ITEM 7 - TYPES OF CLIENTS**

We provide financial planning and portfolio management services to individuals, high net worth individuals, small business owners, trusts, and estates. Portfolio management services are generally done on a discretionary basis.

**Account Requirements**

We do not have a minimum portfolio size for our investment management services. However, in the **Diamond Plan**, retirement reviews, financial planning services, and more extensive financial plans are limited to portfolios over \$300,000. We reserve the right to decline our services if we conclude that our services are not suitable or would not benefit you.

**ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS****METHODS OF ANALYSIS**

Fundamental analysis is a technique that attempts to determine a security's value by focusing on the economic well-being of a financial entity as opposed to only its price movements. When conducting fundamental analysis, we will review a company's financial statements and consider factors including, but not limited to, whether the company's revenue is growing, if the company is profitable, if the company is in a strong enough position to compete with its peers, and if the company is able to repay its debts. Because it can take a long time for a company's value to be reflected in the market, the risk associated with this method of analysis is that a gain is not realized until the stock's market price rises to the company's true value.

The valuation method is a technique used to calculate a theoretical value for a security in order to estimate potential future market prices. When using the valuation method, we will review such things as a security's cash flow, earnings per share, price to earnings, and growth rate.

We also use technical analysis to evaluate potential investments. Unlike fundamental analysis, technical analysis does not analyze the company's value, but instead analyzes the stock's price movement in the market. Charting is a form of technical analysis in which the various technical factors are diagrammed in order to illustrate patterns. Technical analysis studies the supply and demand in the market in an attempt to determine what direction, or trend, will continue in the future. However, there are risks involved with this method, including the risk that the trends will change unpredictably, which is why we use a combination of methods and obtain information from a variety of sources.

We obtain information from a number of sources, both public and by purchase, including financial newspapers and magazines, inspections of corporate activities, research materials prepared by third-parties, corporate rating services, annual reports, prospectuses, and filings with the SEC, and company press releases. In addition, we

stay abreast on current investments trends and relevant products through industry conferences, professional seminars, and webinars. We generally pay for expenses incurred to receive information published by third-parties. However, some materials are available to us without charge. These free sources are widely available to the general public and retail brokerage customers of the brokerage firms and account custodians. We believe these resources for information are reliable and regularly depend on these resources for making our investment decisions; however, we are not responsible for the accuracy or completeness of this information.

## INVESTMENT STRATEGIES

We use a variety of asset allocation strategies and investment styles depending on your circumstances, financial objectives, and needs. We use diversification in an effort to manage risk and balance the return. We may implement one or more of the following investment strategies: long-term purchases (held at least a year), short term purchases (held less than a year), trading (held less than 30 days), short sales (selling of a security that the seller does not own, based on the assumption that the seller will be able to buy the stock at a lower amount than the price at which the seller sold short), margin transactions (purchase of a security on credit extended by a broker-dealer for ultra-aggressive accounts), and option writing (selling an option for income).

Our asset allocation strategies include the use of stocks, bonds, exchange traded funds (ETFs), mutual funds (held directly or held within variable annuities or life insurance products), mutual funds that employ hedging strategies to lower volatility, municipal securities, options contracts, and other types of investments. We often use different types of mutual funds to promote portfolio diversification within various asset classes, such as industry sectors, domestic/international, equities/bonds, or commodities. For actively managed portfolios, we endeavor to strategically manage your allocations to accommodate your life situation, cash needs, as well as changes in asset class valuations, volatility, or economic cycles. For passively managed portfolios, we primarily use exchange traded funds (ETFs), indexed and passive mutual funds, and some individual fixed income securities. We may rebalance your portfolio when there are changes in your needs, tax profile, market conditions, or economic developments. We rebalance passively managed accounts on a semi-annual basis.

For most portfolios, we discourage concentration in any one security or sector, except under very limited or special circumstances, or possibly during a transitional stage in portfolio rebalancing. Additionally, we believe in following a long-term, low cost approach. However, an exception to this general strategy may apply, for example, to portfolios that follow the aggressive or ultra-aggressive models.

In actively managed portfolios, we employ both fundamental and quantitative methods to build and manage portfolios. Our overall investment policy includes some flexibility for us to use tactical allocation during portfolio rebalancing or to help protect conservative portfolios during extreme market conditions. We do not employ or use market timing techniques.

We may also implement hedging strategies for our portfolio management clients who have a large concentrated position in a security. The hedging strategies may include, but are not limited to, options or some other form of derivative instrument, which are used primarily to limit portfolio risks, and not for speculative purposes.

Because we tailor our management to each client's situation, the investment composition of an actively managed portfolio will generally differ from another with similar allocations. There are several factors that may also directly and indirectly impact our investment decisions and implementation.

## TYPES OF INVESTMENTS AND RISK OF LOSS

Investing in securities involves risk of loss that you should be prepared to bear. Obtaining higher rates of return on investments typically entails accepting higher levels of risk. We will work with you to attempt to identify the balance of risks and rewards that is appropriate and comfortable for you, and we will explain and answer questions you have about these kinds of investments. However, it is still your responsibility to ask questions if you do not fully understand the risks associated with any investment or investment strategy.

Also, while we strive to render our best judgment on your behalf, many economic and market variables beyond our control can affect the performance of your investments, and we cannot assure you that your investments will be profitable, or assure you that no losses will occur in your investment portfolio. Various types of risks associated with most investment strategies may include:

- **Capital Risk:** The risk that your investments may lose part or all the value.
- **Currency Risk:** The potential risk of loss from fluctuating foreign exchange rates.
- **Financial Risk:** The possibility of loss when you invest in a company that has debt
- **Market Risk:** The risk that the value of an investment will decrease due to the change in value of the overall market. This risk can be moderated through hedging, but cannot be eliminated through diversification
- **Credit Risk:** The risk that a lender may lose the principal and/or the interest associated with a loan when a borrower does not repay the loan.
- **Interest Rate Risk:** The risk that that an investment's value will change due to changes in interest rates.
- **Reinvestment Risk:** This occurs when you reinvest cash from investments at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities in a declining rate environment.
- **Liquidity Risk:** The ability to readily convert an investment into cash.

Past performance is one relatively important consideration with respect to any investment or investment advisor, but it is not a predictor of future performance. We will explain and answer any questions you have about these kinds of investments, which present special considerations such as the following:

### **Mutual Funds, Index Funds, and Exchange-Traded Funds**

The different kinds of mutual funds we use each have inherently different risk characteristics and should not necessarily be compared side by side. A bond fund with below-average risk, for example, should not be compared to a stock fund with below average risk. Even though both funds have low risk for their respective categories, stock funds overall have a higher risk/return potential than bond funds.

Of all the asset classes, cash investments (i.e. money markets) offer the greatest price stability, but have yielded the lowest long-term returns. Bonds generally experience more short-term price swings, and in turn have generated higher long-term returns. However, stocks historically have been subject to the greatest short-term price fluctuations—and have provided the highest long-term returns.

The risks in any given mutual fund depend on the investments it holds. For example, a bond fund has interest rate risk and income risk. Bond prices are inversely related to interest rates. If interest rates go up, bond prices will go down and vice versa. Bond income is also affected by a change in interest rates. Bond income (yield) is directly related to interest rate changes. If interest rates rise, bond yield rises and vice versa. Income risk is greater for a short-term bond fund than for a long-term bond fund. However, your principal is subject to higher risk of loss in a long-term bond fund.



Similarly, a sector stock fund (which invests in a single industry, such as telecommunications) is at risk that its price will decline due to developments in its industry. A stock fund that invests across many industries is more sheltered from this industry related risk. However, while diversification across industries can help reduce your risk of loss from investing in a single sector, it may limit your opportunity for a significant gain if a single industry or sector increases dramatically in value.

With respect to all classes of mutual funds and ETFs, diversification does not protect you from losses. You should consider these risks in determining whether to use our services.

Most mutual funds offer several “classes” of their shares, which may be purchased by different types of investors or investors with different investment objectives. These are also described in the mutual funds’ prospectuses. Depending on your investable assets, investment objectives, and time horizon, different classes may be more appropriate for your circumstances. We can discuss with you the available classes of mutual fund shares that may be available, the different purposes for which they may be purchased, and the differences in charges associated with each share class.

### **Individual Stocks and Bonds**

The risks inherent with individual stocks and bonds are similar to those described about mutual funds. However, unlike mutual funds, individual securities carry more risk because of the possible lack of diversification in the event that your portfolio isn’t spread across many industries and companies. An owner of an individual security is subject not only to market risk, but company risk, significant event risk as in the case of bankruptcy, loss of major customers, loss of earnings, or similar factors. Typically, individual securities have more volatility and potential for larger gains and losses. Unlike mutual funds, you face a greater risk of losing your entire investment in an individual stock or bond. We seek to mitigate these risks in the ownership of individual securities by sound research, diversification, and by limiting the concentration of each security in the account or portfolio.

### **Options**

Where suitable and appropriate for clients, we may engage in a variety of transactions involving options, although they do not represent a primary focus of our investment strategy. Options are derivative financial instruments whose values depend upon, or are derived from, the value of something else, such as one or more underlying investments, such as a stock or a stock index. We generally use options only in a conservative strategy to generate additional income for portfolios with concentrated positions, which are being diversified. Where suitable, for certain clients who meet criteria for the aggressive and ultra-aggressive models/strategies, we may make use of “short” options positions, the values of which move in the opposite direction from the price of the underlying security. In this instance, we may use options both for hedging and non-hedging purposes, including as a substitute for a direct investment in the securities of one or more issuers.

However, we may also choose not to use options, based on our evaluation of market conditions, availability of suitable options contracts, and the overall cost to you.

Options involve special risks and may result in losses. The successful use of options depends on our ability to manage these sophisticated instruments. Some options strategies are “leveraged,” which means that they expose the underlying portfolio to risk of loss greater than the value of the investment in the options. As a result, options may magnify or otherwise increase investment losses to the portfolio. The risk of loss from certain options trading strategies is theoretically unlimited. The prices of options may move in unexpected ways due to the use of leverage or other factors, especially in unusual market conditions, and may result in increased volatility.

Options are not suitable for all clients. We can answer any questions you may have about options and can provide you with the options disclosure booklet, *Characteristics & Risks of Standardized Options*, upon request.



## Variable Annuities

Variable annuities are highly complex financial products offered by insurance companies. We do not sell these products. Our role is usually limited to reviewing the investments in the variable annuities you already own or are considering.

Investment in a variable annuity contract is subject to both general market risk and the insurance company's credit risk. These and other risks are described in the variable annuities' prospectuses. Variable annuities are regulated under both securities and insurance laws and related rules and regulations. Variable annuities offer various benefits and features which may, or may not, have value to you depending on your circumstances, which we can discuss with you. If you own variable annuities, you will have paid commissions for them, and there may be substantial surrender charges. These commissions, surrender charges, and other expenses are disclosed in the prospectus and the policies you own. We do not receive any compensation from the charges inherent in your annuities.

Like mutual funds, insurance companies charge a variety of fees and charges against the assets invested in the separate accounts of their policy holders. As noted in the "FEES AND COMPENSATION" section, this means that there may be two layers of advisory fees incurred—one layer by the insurance company and one layer to our firm for our advisory services (if we charge for it).

We don't generally recommend variable annuities to our clients, due to substantial costs and availability of more liquid investment alternatives. However, if you come to us already owning them, and you request that we review the investments, we will offer our views about them, as well as the any potential costs, due to surrender charges, taxes, or other factors.

## ITEM 9 - DISCIPLINARY INFORMATION

As a registered investment adviser, we are required to disclose all material facts, regarding any legal or disciplinary events that would be material to your evaluation of our firm or the integrity of our management. We have had no disciplinary, legal, judgement, liens, criminal, civil judicial action, investment-related arbitrations, regulatory action or event taken against our firm, the owner or the advisor employee. There have been no complaints, barring, or suspension from investment related services.

Examples of actions or events that might be deemed material under the legal category may include:

- Any convictions for theft, fraud, bribery, perjury, forgery, counterfeiting, extortion and violations of securities laws, or a conspiracy to commit any of these offenses.
- Any named subject of a pending criminal proceeding involving investment-related offenses, including but not limited to fraud, forgery, wrongful taking of property, false statements, counterfeiting, or bribery.

Examples of actions or events that might be deemed material under the administrative proceeding before a state\* or federal\*\* regulatory agency, or a self-regulatory organization\*\*\* may include:

- Instance(s) where our firm loses its authorization to provide investment-related business.
- If our firm or our employee was found to be in violation of an investment-related statute or regulation and our firm or our employee is denied, suspended, barred, or licenses revoked from practicing or conducting in an investment-related business.
- If our firm or our employee was subject to a civil money penalty of more than \$2,500.

Examples:

\* Michigan Department of Licensing and Regulatory Affairs.

\*\* Securities and Exchange Commission.

\*\*\*Financial Industry Regulatory Authority (FINRA)

**ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS****AFFILIATIONS**

We are an independent, fee-only financial advisory firm. We are not affiliated with, nor are any of our personnel registered representatives of a broker-dealer firm. We do not receive, or share in, any commissions or fees for recommending services of any broker-dealer, or from transactions in the accounts we manage.

We also do not have any written or verbal arrangements for soft-dollar benefits with any brokerage firm. A soft-dollar arrangement is generally defined as one in which an investment adviser receives research and other services from a broker-dealer in consideration for directing a certain agreed upon dollar amount of commissions from securities transactions to that broker-dealer. In such an arrangement, a portion of the commissions paid from client accounts pay for these research and other services received by the investment advisor.

We do participate in Charles Schwab & Co.'s Schwab Advisor Services™ ("SAS"). Unlike soft dollar arrangements, this program has no direct linkage between our clients' commissions paid from transactions in Schwab accounts and our participation in the SAS. However, by participating, we receive traditional non-cash benefits which we would not otherwise receive if we did not maintain accounts at Schwab. For example, Schwab may make available other products and services that may benefit our business, but may not benefit our clients' accounts in every case. Some of these other products and services assist us in managing and administering our clients' accounts. These include the following:

- Software and other technology that provide access to client account data, such as trade confirmations and account statements.
- Facilitate trade execution and allocation of aggregated trade orders for multiple client accounts.
- Access to certain institutional class mutual funds which generally require significantly high minimum initial investments, or those that are only generally available to institutional investors.
- Provide research, pricing information, and other market data.
- Facilitate payment of our fees from our clients' accounts.
- Assistance with back-office support, recordkeeping, and client reporting.
- Receipt of regulatory compliance communications.
- Discounts or free access to business related seminars and/or products.
- Discounts or free access to research from various sources.

Many of the services listed above may be used to the benefit and service of all, or a substantial number of our accounts, including accounts not maintained at Schwab. A number of the free resources listed above are also available to Schwab's retail accounts. We do not believe any of the benefits we receive will in any way impair our independence. The availability to us of these products and services is not contingent upon us committing to Schwab any specific amount of business in terms of assets in their custody or commissions generated in trading.

**ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

We are committed to our fiduciary duties to our clients at all times. This means that our clients' interest is always ahead of our firm's and of our employees'.

We expect everyone in our firm to conduct ourselves with honesty and integrity. We require that our principals and all employees adhere and commit to the firm's fiduciary responsibilities to clients as set forth in our Code of

Ethics. We also adhere to the Code of Ethics of the CFA Institute, the Certified Financial Planner Board of Standards, the National Association of Personal Financial Advisors, and the Financial Planning Association. A copy of our Code of Ethics is available upon request.

## PROCEDURES AND DISCLOSURES

Our Code of Ethics contains general provisions that seek to identify, prevent and handle potential conflicts of interest with regard to employees' (and family's or friends' accounts) securities trading. We also seek to minimize potential conflicts of interests in our advisory efforts and day-to-day business decisions that might impact our services to you. Our Code of Ethics is designed to:

- Acknowledge and be aware that conflicts of interests exist may and do exist.
- Remind our employees of their obligation to comply with our Code (and various codes) and the legal requirements.

Our Code includes specific policies, procedures, and disclosures:

- Each employee acknowledges our policies and procedures and we require each employee to maintain personal accounts at our designated custodian (Charles Schwab & Co.) or the firm's designated 401k custodian. For holdings that cannot be held at the designated custodian, we require submission of quarterly reports of accounts and holdings. In practice we strongly encourage updates or reporting of planned transactions and activities as soon as they occur.
- All employee, friends' and family's accounts and transactions are reviewed on a regular basis by our Principal and the Co-Chief Compliance Officers.
- Our employees must pre-notify and pre-clear personal trades by either the Principal or the Chief Compliance Officer. Trades that can be placed through the firm's central trading system must be submitted through the firm's channels to ensure monitoring, and that clients' accounts are given preference.
- Limits on gifts given or received.
- Required disclosure and approval of any outside activities prior to engagement in such acidity.

Our employees are expected to conduct themselves with honor and integrity at all times, whether or not they are representing Docsa Capital Management, Inc. or the profession. Our employees are prohibited from acting on any material, non-public information. They are also prohibited from making untrue statements or omit material facts in communications to clients or to the public. Employees who violate our policies are subject to disciplinary action, including possible dismissal.

## ITEM 12 - BROKERAGE PRACTICES

### DIRECTED BROKERAGE & SOFT DOLLARS

We do not maintain custody of your assets that we manage or accounts on which we advise, although we may be deemed to have custody of your assets if you give us authority to deduct our fees from your accounts (or if you grant us authority to move your money to another person's account.) Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. We are independently owned and operated and are not affiliated with any custodians we use to custody clients' assets that we manage.

We typically recommend that our clients use Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, member SIPC, as the qualified custodian for the accounts we manage. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use

Schwab as your custodian/broker, you will make the final determination and will open your account with Schwab by entering into an account agreement directly with them. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see “Your Brokerage and Custody Costs”). In certain situation and subject to approval by us, we will recommend to you other custodians/brokerage firms based on the needs your needs and the nature of the services required.

### How We Select Brokers/Custodians

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

- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices.
- Combination of transaction execution services and asset custody services (generally without a separate fee for custody).
- Capability to execute, clear, and settle trades (buy and sell securities for your account).
- 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 investment research and tools that assist us in making investment decisions.
- Quality and level of customer services.
- Reputation, financial strength, and stability.
- Availability of other products and services that benefit us, as discussed below (see “**Products and Services Available to Us From Schwab**”).

### Your Brokerage and Custody Costs

For our clients’ accounts at Schwab, the firm generally does not charge you separately for custody services, but is compensated by charging you fees on some types of trades that it executes, or that settle into your Schwab account. Certain trades (for example, many mutual funds and ETFs) may not incur Schwab commissions or transaction fees. Schwab is also compensated by earning interest on the uninvested cash in your account in Schwab’s Cash Features Program. In addition to commissions, Schwab may charge 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. Schwab’s commission rates applicable to our client accounts are based on the condition that we maintain a certain minimum amount at Schwab. This commitment benefits you because some of the commission rates and fees you pay Schwab are lower than they would be otherwise. 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**”). Although we select Schwab to execute most of your trades, there are some trades that we will do outside of Schwab, especially when we are able to obtain a security at a lower overall cost to you, inclusive of Schwab’s “prime broker” or “trade away” fee.

## Products and Services Available To Us From Schwab

Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage services (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 are generally available on an unsolicited basis (we don't have to request them) and at no charge to us. The following is a more detailed description of Schwab's support services:

### Services That Benefit You

Schwab's services described in this paragraph generally benefit you and your account. Schwab's institutional brokerage services give us access to a broad range of investment products, execution of securities transactions, custody of client assets, and technology tools for both advisors and you. Through Schwab's institutional brokerage services platform, you benefit by having access to investments that may be closed to retail accounts and ones that offer lower initial minimums to institutional clients. We also receive your account data download (such as duplicate trade confirmations and account statements), so that we may manage and monitor your portfolio.

### 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:

- 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.
- Provide access to client account data (such as duplicate trade confirmations and account statements).
- Offer access to an electronic communications network for client order entry and account information.
- Assist with back-office functions, recordkeeping, and client reporting.

### 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:

- Education webinars and events.
- Consulting on technology, compliance, legal, and business needs.
- Complimentary advisor directory listing on Schwab's Independent Advisor Learning Center ([findyourindependentadvisor.com](http://findyourindependentadvisor.com)) website.
- Publications, webinars and conferences on practice management, business succession, economic outlook and investment trends.
- Access to employee benefits providers, human capital consultants, and insurance providers.

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 other benefits that may benefit our personnel, such as occasional sponsorship of business entertainment at professional association conferences.

Services offered by Schwab that generally benefit only us include access to Schwab's newsletters and webinars on practice management, regulatory compliance, economic outlook, and investment trends. While our firm is listed in Schwab's complimentary directory on its Independent Advisor Learning Center website ([findyourindependentadvisor.com](http://findyourindependentadvisor.com)), we have not benefited from the complimentary service.

### **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. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions. The minimum we commit 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 operations, 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 your best interests. Our selection is primarily supported by the overall scope, quality, and price of Schwab's services (see "**How We Select Brokers/Custodians**") and not services that benefit only us. The level of client assets under our management exceeds Schwab's minimum requirement. We do not believe that recommending you to maintain your assets at Schwab presents a material conflict of interest.

You may direct us to use a specified broker-dealer of your choosing, to effect transactions for or with your account, or our agreement with you may state a directed brokerage arrangement with a specified financial services firm. You need to understand that, in the case of such a directed brokerage arrangement, (1) you will be solely responsible for negotiating the terms and arrangements on which those broker-dealers are engaged, and we will have no responsibility for reviewing the fairness of those terms and arrangements; (2) we will not seek better execution services or prices from other broker-dealers in connection with transactions for your account; (3) we will not be able to "batch" or "aggregate" transactions for your account with transactions for our other clients not subject to a similar such arrangement; (4) we will not monitor the performance of or the services provided by the broker-dealers so designated; (5) and as a result, you may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. However, we may seek better execution services or prices from other broker-dealers or "batch" your transactions for execution if such action is required by law or fiduciary duties, including but not limited to, the fiduciary duty provisions under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), if you are a plan subject to ERISA, or if the designated broker-dealer is unable or unwilling to effect a particular transaction or transaction, which may occur with certain transactions involving fixed-income securities.

With regard to our general duty of "best execution," (see above in "**How We Select Brokers/Custodians**"), we use some of Schwab's resources to assist us with our oversight. Schwab monitors execution quality through a "regular and rigorous review" of the execution quality it receives from the venues where the firm routes equity (stock) and option orders. Schwab sends non-directed equity orders to multiple securities exchanges and liquidity providers. Liquidity providers work to improve executions and in many cases provide liquidity that exceeds the size displayed at the current market quote. Schwab is not a liquidity provider in equity securities and does not trade for its own account.

Generally, the larger service providers compare the reported executions and unexecuted orders to the National Best Bids and Offers ("NBBO's") at the time of order entry and identify a subset of items that require review.

Schwab also offers SmartEx, which is an intelligent order routing system designed to route most NASDAQ market or marketable limit orders quickly and seek the best available trade execution. The firm also offers Direct Access trading technology, which provides for the ability to target the price desired by routing orders directly to the selected ECN or NASDAQ market maker. Further, Schwab will match any broker's guarantee no matter how fast. (ECN is an acronym meaning electronic communications network, which is an independent order execution system set up by brokerage firms to match certain types of orders with compatible orders already in the market. A NASDAQ market maker is a brokerage firm that specializes in creating and maintaining a market for a particular security by actively buying or selling that security. Market makers generally provide liquidity to the market for the securities in which they specialize.)

Additionally, Schwab indicates that they continually monitor alternative venues to identify opportunities for improving execution quality. Among the factors Schwab considers include:

- The amount of net price improvement.
- Speed of execution.
- Certainty of execution.
- Cost of execution.
- Service issues.
- Reliability, accessibility, and credit worthiness of counterparties.

We also periodically review other alternatives that are available to the advisor market. However, we believe that excellent customer service and trade execution is superior to most non-service oriented, deep discount, and internet brokers that may otherwise be available to the public. While Schwab features a line of products and services that are available to every investor, Schwab Advisor Services can provide us with access to its institutional trading and operations services, which are typically not available to retail investors.

## **AGGREGATION OF ORDERS**

We have adopted a trade allocation policy to govern how we handle the aggregation of orders for more than one client's account. From time to time and only where appropriate, we aggregate orders for securities transactions for more than one client and, in appropriate circumstances, include proprietary accounts (proprietary accounts include employee accounts). In doing so, we strive to treat each client fairly and will not favor one client or a proprietary account over another client. When executed, we will allocate the aggregated order in accordance with policies and procedures intended to achieve fair treatment. The purpose of aggregating orders is generally to obtain better execution for the aggregated order than might be achieved by processing each of the transactions separately.

We will not aggregate orders for different clients who have a directed brokerage relationship with a broker-dealer other than Schwab. A consequence of not aggregating your order, with other orders for the same securities, is that you may not obtain as good a price or as low a cost in a separate transaction as clients whose orders have been aggregated.

Each account that participates in an aggregated order will participate at the average share price for all transactions ordered by our firm in that security on a given business day. If an aggregated order is not filled in its entirety, it will be allocated among participating accounts on a pro rata basis. If permitted by the broker-dealer effecting the transaction, transaction costs will be shared on a pro rata basis. Some broker-dealers charge brokerage commissions to each participating client in accordance with the size of that client's part of the aggregated order, regardless of the total size of the aggregated order. In such situations, we may adjust



allocations to minimize the costs to affected accounts while seeking as equitable an allocation as possible across all client accounts participating in the allocation.

From time-to-time, we may purchase individual bonds or CDs for clients in the secondary market either on the Schwab platform or from an outside broker, especially when, net of Schwab's processing fee (if any), the yield to maturity is better than for new issues. While we may be able to obtain better pricing via the secondary market, the possible disadvantage to this strategy is that often there is an insufficient amount of securities to allocate to all client accounts that fit the risk profile for a specific security. In such cases, allocations are generally based on a series of decisions, including, but not limited to:

- Percentage of cash holdings.
- Client's cash needs (reserves for planned withdrawals).
- Whether the bond primarily benefits or is restricted to taxable accounts.
- Credit risks (and quality of issuer).
- How the maturity or call date fits with client's cash needs.
- Weight by industry and/or issuer.
- Client's tax profile.

We monitor allocations on an on-going basis and take steps to ensure that no client will be systematically disadvantaged by the aggregation or allocation of trades.

## **BEST EXECUTION**

Our advisory agreement with you allows us discretionary authority to determine and select investments for your accounts. As a fiduciary, we strive to obtain the most favorable execution of orders for you under the prevailing circumstances. When appropriate, we may use block trades described in the previous section to obtain favorable pricing and reduce overall transaction costs. Considerations for "best execution" include a number of quantitative and subjective factors, such as:

- Efficiency of transactions
- Efficient clearance and trade settlement
- Custodian's order routing systems, multiple exchanges, liquidity, and execution quality
- Prompt and fair error correction
- Competitive commission rates and favorable spreads.
- Quality of broker and support service
- Reliability and financial strength of the brokerage firm

Custodial brokerage firms set their own commission rates and transaction fees for various types of securities. While there are brokerage firms that offer lower commissions and transaction fees, in our experience and to the best of our knowledge, the firms that we custody our clients' accounts do offer competitive rates and quality trade execution.



**ITEM 13 - REVIEW OF ACCOUNTS**

We download data from our portfolio management accounts from the primary custodian each business day. Timothy J. Schauer, CFA®, CPA, Principal, and Sophit Lee, CFP®, Managing Director both review clients' portfolios. We conduct general routine reviews of accounts and transactions at least weekly, although these are typically done on a daily basis. We conduct broader strategic reviews at least quarterly as well as upon your request. Broader account and portfolio reviews may include: evaluation of the positions based on their fundamentals, for appropriateness to your situation, near-term cash flow needs, risk tolerance, and financial objectives; asset allocation target ranges; relative performance and volatility target ranges; and determining whether action such as tax management, rebalancing, or planning is needed. Reviews may also be triggered by: changes in your life events, financial situation, or when there is a significant change in account deposits or withdrawals. For courtesy accounts, we may conduct investment reviews on an occasional, ad hoc, basis.

We do not provide ongoing account monitoring or ongoing portfolio review to clients who work with us on a project or short-term basis.

If we provide you with portfolio management services, you will receive transactional statements monthly or quarterly from your custodian and/or other investment sponsor. These statements include a list of each security held and the transactions occurring in your account for the period. For accounts held at Schwab, we also provide semi-annual portfolio performance and position reports. We may also provide other reports that you may request from time-to-time. None of our reports are meant to replace or supersede your monthly or quarterly statements from your custodian and/or other investment sponsor.

If you use our financial planning services or engage us for a project, reports are provided upon completion of the project.

**ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

We do not receive compensation from any service provider directly, or indirectly, in return for client referrals. We also do not compensate any person directly, or indirectly, for their client referrals to our firm. Our firm's Chief Compliance Officer and Co-Compliance Officer are in-house staff. We do not receive compensation from an outside firm for the supervision and administration of this function.

Because we recommend you custody your accounts at Schwab, we are eligible for a complimentary listing Schwab's Independent Advisor Learning Center website ([findyourindependentadvisor.com](http://findyourindependentadvisor.com)). Even though we have not benefited from Schwab's complimentary service, you should consider this a potential conflict of interest when selecting a custodian for your assets.

**ITEM 15 - CUSTODY**

We do not have or take custody of any of your funds or securities. However, under government regulations, we are deemed to have limited custody when we deduct fees from your accounts. Under this payment option, you must provide written authorization permitting us to submit our fee request to the custodian and allowing the custodian to debit our fees from your accounts.

You will receive our invoice showing our fee for each account. You will also receive statements from the broker-dealer, bank, or other qualified custodian that holds and maintains your investment assets at least quarterly. We urge you to carefully review such statements and compare such official custodial records to any reports that we may provide to you, as described in the “**REVIEW OF ACCOUNTS**” section. None of the reports we provide are intended to replace or supersede the statements you receive from your qualified custodian.

On February 21, 2017, the Securities and Exchange Commission (SEC) issued a no-action letter clarifying that advisers granted standing authority (also known as a standing letter of authorization or “SLOA”) to move money from a client’s account to a third-party account do have “custody” within the meaning of Investment Advisers Act Rule 206(4)-4 (the “Custody Rule”). The SEC outlined seven conditions that, if met, will exempt advisers from the burden and expense of complying with the full Custody Rule. Six of the seven conditions rely on custodial brokerage firms for compliance. Our clients’ primary custodian, Charles Schwab & Company has updated its processes and procedures to help advisers meet the exemption. The one condition not associated with a custodian is that our firm is responsible for maintaining records showing that a third party is not related to or located at the same address as Docsa Capital Management, Inc. Although our firm is state regulated, we intend to follow this safe harbor practice. In the absence of state regulations that indicate otherwise, most states tend to follow most guidelines and interpretations promulgated by the SEC.

## ITEM 16 - INVESTMENT DISCRETION

When you retain us for portfolio management services, we will obtain discretionary authority in writing from you at the outset of our advisory relationship, such as in the client agreements for the **Diamond** and **Topaz Plans**. When you choose to do so, discretionary authority grants us the ability to determine, without obtaining your specific consent, the securities to be bought or sold for your portfolio, and the amount of securities to be bought or sold. This means we do not call you prior to each investment transaction.

We do not have the discretion to choose the broker-dealer or other qualified custodian for your account as explained in detail in the “**BROKERAGE PRACTICES**” section above. However, we do have discretionary authority to select the broker-dealer to be used for specific securities transactions within your account at the qualified custodian; such transactions include securities that may be available at an outside broker-dealer not affiliated with the qualified custodian. In such instances, the securities transactions will be cleared and settled using your account at the qualified custodian. In all cases, however, we seek to exercise discretion in a manner consistent with your stated investment objectives and limitations, the size of your account, and your risk tolerance.

If you engage us to provide you with portfolio management services, you will also sign an agreement with your broker-dealer or other qualified custodian which includes a limited power of attorney granting us authority to direct and implement the investment and reinvestment of your assets within the account, but not to transfer or direct the assets outside of the account. If you choose to have automatic payment of our fees, the agreement with your broker-dealer or other qualified custodian will include a limited power of attorney for us to collect those fees. For detailed information, see the “**General Investment Management Fee Policy**” sub-section of the “**FEES AND COMPENSATION**” disclosure above.

You may request some investment preferences and/or restrictions. For example, you may request that we not invest in certain industry or in a specific company. While we will strive to accommodate, keep in mind that we may not be able to fully meet your requests for various reasons. For related information, see the “**BROKERAGE PRACTICES**” section above.

**ITEM 17 - VOTING CLIENT SECURITIES**

As a matter of policy and practice, we do not respond to proxies and corporate actions that are solicited with respect to annual or special meetings of shareholders of securities held in your account. We do not submit votes on your behalf. Although we are not required to render advice in this area, we may, upon your request, offer suggestions as to whether action by you is necessary or beneficial to you. When you wish to take any action, you will be responsible for responding to all corporate action instructions. In most cases your brokerage firm or other qualified custodian will forward proxy and other corporate materials directly to you. However, in the unlikely event that we receive them, we will forward them to you.

**ITEM 18 - FINANCIAL INFORMATION**

As a registered investment adviser, we are required to provide you with certain financial information or disclosures about our financial condition, if we have financial commitments that impair our ability to meet contractual and fiduciary commitments to you. We have not been the subject of a bankruptcy proceeding and do not have any financial commitments that would impair our ability to meet any contractual or fiduciary commitments to you.

**REQUIREMENTS FOR STATE-REGISTERED ADVISERS****PRINCIPAL EXECUTIVE OFFICERS AND MANAGEMENT PERSONS**

Timothy J. Schauer, CFA®, CPA, is the Principal, Equity Strategist, Co-Compliance Officer and sole shareholder of Docsa Capital Management, Inc. Mr. Schauer has been in the financial services industry since 1996 and with Docsa Capital Management, Inc. since 2001. Mr. Schauer earned a Bachelor of Science degree from Mankato State University in 1992 and a Master's degree in Business Administration (MBA) from Western Michigan University in 2002. He is a Certified Public Accountant (CPA) since 1994 and a Chartered Financial Analyst (CFA®) since 2003. He passed the Uniform Investment Adviser Law Examination, Series 65, in 2001.

Sophit Lee, CFP® is Managing Director and Chief Compliance Officer. Ms. Lee has been in the financial services industry since 1994 and with Docsa Capital Management, Inc. since 2000. Ms. Lee earned a Bachelor of Arts degree from the University of California, Berkeley, in 1979 and a Master's of Library and Information Science (MLIS) from the University of California, Berkeley, in 1982. Additionally, she completed the Personal Financial Planning (PFP) certificate program at the University of California, Irvine, in 1995. She is a CFP® practitioner since 1996 and is registered as a Financial Advisor with The National Association of Personal Financial Advisors (NAPFA) since 1999.