



CALDWELL SUTTER
CAPITAL™
Focused on Value

Caldwell Sutter Capital, Inc.
Firm Brochure

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This brochure provides information about the qualifications and business practices of Caldwell Sutter Capital, Inc. If you have any questions about the contents of this brochure, please contact us at (415) 962-2526. The information in this brochure has not been approved or verified by the United States Securities Exchange Commission or by any state securities authority.

Additional information about Caldwell Sutter Capital, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov. The use of the word "registered" in this brochure does not imply a certain level of skill or training.

Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual amendment, dated December 27, 2018, the following material changes were made to the Form ADV Part 2A:

- We have updated the fee schedule for portfolio management services, new clients will be billed based on asset class.
- We have updated the language in methods of analysis, investment strategies and risk of loss to include a more detailed definition of our services.
- We have updated our trading practices to allow us to trade on a principal basis. However, we do not charge clients fees or commissions other than our cost to execute the trade. Advisers are not compensated for these transactions.

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Advisory Business

About Caldwell Sutter Capital

Caldwell Sutter Capital, Inc. ("Caldwell") was formed in 1982 and is primarily owned by the John and Jinx Helmer Revocable Trust. Caldwell is organized as a corporation under the laws of the State of California.

Caldwell is dually registered as a SEC registered investment adviser and a FINRA member broker-dealer and is headquartered in Sausalito, California. Joe Helmer, CFA serves as the firm's President and Christopher Anderson serves as the Chief Compliance Officer.

Advisory Services

Caldwell is a dually registered investment adviser and securities broker-dealer. Our quarterly fees are based on securities upon which we have:

- Researched,
- Recommended to our clients,
- Acquired for our clients' accounts, normally as agent in the secondary markets, and
- Monitored thereafter.

Our clients are high net worth individual investors and their families. When making recommendations to an investment account, we factor in the return objectives and risk objectives of the client. We also factor in the individual investor's constraints. Constraints include time horizons, tax considerations, liquidity needs, any legal or regulatory factors, and unique circumstances.

Tailoring Investments for Clients

Caldwell asks for advisory clients to complete an investment profile that helps us to understand your financial situation, investment goals, and your tolerance for risk. We use this and other information to help determine whether a particular investment is suitable for the needs and goals of the advisory client. A client, through discussion with their adviser, is always free to indicate which of the investments we recommend can be invested in their accounts. This may include restrictions on particular types of securities, socially responsible investment strategies, or other specific factors that might be desired by a client.

Wrap Fee Programs

Caldwell does not participate in any wrap fee programs.

Assets Under Management

As of September 30, 2019, Caldwell managed \$74,308,002 on a non-discretionary basis, meaning that the client gave their approval for each purchase we gave each investment. Caldwell managed \$159,064,733 on a discretionary basis, meaning the client does not need to give their approval for each transaction in their portfolio. In total, Caldwell managed \$233,372,735.

Fees and Compensation

Fee Schedule

Our annual fee for portfolio management services depends on the asset class:

- 0.5% for all fixed income securities including Treasuries, corporate bonds, municipal bonds government securities as described in *CS Value Income* under *Methods of Analysis*
- 0.5% for limited partnerships and other private funds managed by parties other than Caldwell
- 1% for ETFs and closed end funds which are included in investments under *CS Value Equity* under *Methods of Analysis*
- 1.5% for individually researched equities as described in *CS Value Equity* under *Methods of Analysis*

We do not charge on cash held or any other assets that may be held in the account.

In addition, there is a schedule for an annual fee of 0.375% for accounts with only fixed income securities as described in *CS Value Income* under *Methods of Analysis* where the account has a minimum value of \$20,000,000.00. No other asset classes are charged in this case.

Our annual portfolio management fee is billed and payable quarterly in advance based on the balance at end of billing period. Existing client accounts may have a different fee schedule.

If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. Our advisory fee is negotiable, depending on individual client circumstances.

We will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. We will send you an invoice showing the fee calculation showing the breakdown by asset class. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements, including the advisory fees, from your account. You should review all statements for accuracy.

We encourage you to reconcile our invoices with the statement(s) you receive from the qualified custodian. If you find any inconsistent information between our invoice and the statement(s) you receive from the qualified custodian please call our main office number located on the cover page of this brochure.

Quarterly advisory fees for multiple accounts may be charged to one designated account held by the same customer or immediate family members (husband, spouse, children) as long as there is a written agreement or amendment signed and dated by all parties to the advisory fee agreement.

Other Fees and Expenses

In addition, the custodian of your assets, typically either Wedbush Securities Inc. or TD Ameritrade, may also charge other types of fees for performing various functions including, however not limited to, transaction fees, custodial fees for various types of special accounts, requesting certificates, fees to transfer funds and/or securities, Regulation T extension charges, exchange fees, transfer taxes and reorganization fees.

We may trade client accounts on margin. Each client must sign a separate margin agreement before margin is extended to that client account. Fees for advice and execution on these securities are based on the total asset value of the account, which includes the value of the securities purchased on margin. While a negative cash balance may show on a client's statement, the amount of the fee is based on the absolute market value of each selected investment. This creates a conflict of interest where we have an incentive to encourage the use of margin to create a higher market value and therefore receive a higher fee. The use of margin may also result in interest charges in addition to all other fees and expenses associated with the security involved.

Please see the section on *Brokerage Practices* for more information regarding this.

Prepaid Fees

Fees are charged in the same quarter that represents the billing period. This means that clients will prepay their fees for that quarter.

If you terminate your advisory contract within five days of the effective date of the agreement, you will receive a full refund of any advance fees paid. Otherwise, you are eligible for a pro-rata refund of unearned fees in the billing period.

This refund is calculated by taking the number of days left in the billing period starting with the date of contract termination taken as a percentage of the total number of days in the billing period.

Other Compensation

If we choose to execute a trade on your behalf with as broker, Caldwell will not benefit as the transaction fees charged to us are equal to the cost charged to Caldwell as the broker-dealer executing your trades. These transaction fees will not reduce the advisory fees.

Persons providing investment advice on behalf of our firm are also registered representatives with Caldwell Sutter Capital, Inc., a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. In their capacity as registered representatives, these persons will receive commission-based compensation in connection with the purchase and sale of securities or other investment products, including asset-based sales charges, service fees or 12b-1 fees, or holding, of mutual funds for the sale of investment company products. Compensation earned by these persons in their capacities as registered representatives is separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice to advisory clients on behalf of our firm who are registered representatives have an incentive to recommend investment products based on generating commissions when executing securities rather than solely based on your needs.

To mitigate this conflict of interest, we do not allow the recommendation or holding of any investment that pays an asset-based fee such as a 12b-1 fee to Caldwell in advisory accounts where Caldwell is also the broker-dealer of the advisory account. If any such investment is deposited or otherwise transferred into an advisory account and the client does not wish to, or cannot, liquidate that investment, they will be required to hold it in a brokerage account outside of this relationship.

For any other compensation that we may receive for the sale of a security, we will reimburse to the client's account any compensation received attributable to that account promptly after the transaction occurs. This is done by reducing the next advisory fee by the amount to reimburse.

Performance-Based Fees and Side-By-Side Management

We do not charge performance-based fees or participate in side-by-side management. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Our fees are calculated as described in the *Fees and Compensation* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

Types of Clients

We generally provide investment advice to individuals, their families, and their trusts, retirement accounts, and other related accounts. We typically initiate a relationship with a portfolio size of \$250,000, though there is no hard minimum to opening an account.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

We use separate accounts to build highly customized equity and fixed income portfolios for our advisory clients. Portfolios are comprised of individually researched securities having fundamental and structural characteristics specific to our value-focused investment processes. Our advisory clients typically choose one of the following portfolio strategies:

CS Value Equity

We use a bottom-up, fundamental-based value approach. This means that we research individual businesses and their financial condition rather than looking at whole industries or other classifications of businesses. We acquire equity securities in businesses that we believe are trading at prices below our analysis of the intrinsic value of these businesses.

Our prospective investments are largely sourced within certain equity market niches we call "pockets of structural inefficiency." Structural inefficiencies that may create pricing at a discount to intrinsic value include: a) limited market liquidity, b) undiscovered companies with no investment research coverage and limited availability of financial data, c) securities that may be undervalued due to complicated circumstances/events, and d) companies and securities that are controlled by majority owners. We have observed that these structural characteristics preclude many, particularly larger, investment firms from undertaking the effort to thoroughly research these companies and securities. We believe that the limited amount of capital and limited number of investors focused here directly relates to the opportunity to source undervalued investments from these niches. However, depending on market circumstances, there may be instances where more thoroughly researched securities that are more actively traded and held will have low valuations compared to their intrinsic value, and we will consider these securities should these situations arise.

We perform our own proprietary research, inspecting historical financials. We largely focus on businesses that have certain key factors present, such as: consistently recurring revenues, positive earnings and cash flows, and conservative balance sheets. These businesses are typically led by what we call "owner-operators." This means the company's management and board of directors have substantial equity ownership. We believe high levels of insider ownership are preferable for an alignment of interests in the preservation and growth of shareholder value.

An important part of our process is what we call "mapping the end game." This process helps us understand how the discount between trading price and our analysis of intrinsic value might be closed. We analyze certain key factors of companies that may inherently lead to such outcomes such as acquisitions, mergers, cash sales, or liquidations of businesses. However, in the absence of such a catalyst, it is important that our portfolio companies can successfully grow their respective intrinsic values at an acceptable, long term risk-adjusted rate.

We believe in harnessing the power of long-term compounding and that the more reliable way of preserving and growing capital is the steady compounding of returns. Accordingly, advisory clients should view CS Value Equity as a long term, buy and hold strategy.

CS Value Income

We identify the risk and return objectives, liquidity needs, tax status, and other unique circumstances of each advisory client. This includes taking into consideration their income tax bracket, state of residency, need for periodic distributions, and whether the funds are in a taxable or tax-exempt (retirement) account. We utilize both tax-exempt and taxable municipal bonds, corporate bonds, and United States agency and government bonds. Each advisory client's specific needs will determine the structure elements of their portfolio, such as maturity/duration, taxable/tax exempt, and credit ratings of the individual bonds selected for their portfolio.

In general, we buy bonds that are investment grade (credit rating of Baa/BBB to Aaa/AAA), and readily marketable. There are situations, however, where a bond may not carry an investment- grade rating (or any rating at all), but there is a compelling reason to purchase it. We build our advisory clients' portfolios with a primary focus on what we call "relative value." This means we seek to uncover bonds that offer higher yields relative to similarly rated issues, maturities, and coupons, that our research leads us to believe that the risks are not commensurately higher. We do this through primary in-house research, utilizing official statements, financial statements, and other publicly available disclosures, as well as conversations with bond trustees and issuers to determine the credit-worthiness of a specific bond issue.

The current interest-rate environment and the shape of the yield curve (the difference between the yield on short-term and longer-term bonds) also helps us to determine the most attractive duration for the bonds we purchase. As mentioned above however, each advisory client's individual situation ultimately determines the duration of their individual portfolio.

Caldwell Sutter Capital is dually registered as both a broker-dealer and a registered investment adviser. Our registration as a broker-dealer allows us to purchase bonds in the "wholesale" market and sell them directly to our advisory clients with no mark-up.

CS Value Balanced

Our balanced approach utilizes a customized portfolio of individually researched securities combining aspects of our CS Value Equity and CS Value Income strategies. The appropriate weighting between the two strategies is based on the risk and return objectives, liquidity needs, and other unique circumstances of each advisory client. Market factors may also influence the initial allocation recommendation and future rebalancing between the two strategies. There is, however, a conflict of interest in recommending this strategy in that the adviser could be incentivized to recommend higher amounts of securities under the CS Value Equity strategy due to its higher fee.

Other Securities

Based on the advisory client's unique circumstances, we may recommend other kinds of investments for their portfolio, such as equity securities not covered under "CS Value Equity," institutional class mutual funds, options on these asset classes, and third party managed alternative investments (LPs). We take into account current economic conditions, business cycles, interest rates, and geopolitical events that may impact the securities and sectors that our clients are invested in. We utilize a variety of sources including, but not limited to business news services such as the Wall Street Journal, the New York Times, Bloomberg, and other publications to follow and analyze such conditions. However, this is not the main emphasis of the investment strategy as described by this brochure, and so aside from specifically recommended and researched alternative investments (LPs), we will not charge on these asset classes.

Risk of Loss

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

Margin Risk

A transaction performed on margin is a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan, as long as that security is marginable. Securities that have higher market capitalization and higher liquidity are more likely to be marginable. Stocks below \$5 and initial public offerings are typically not marginable.

If the value of the securities collateralizing the margin loan drops sufficiently, the investor will be required to either deposit more cash into the account or sell a portion of the stock in order to maintain the margin requirements of the account. This is known as a "margin call." An investor's overall risk includes the amount of money invested plus the amount that was loaned to them.

Caldwell Sutter does not recommend the use of margin in order to purchase recommended securities, however, a client at its own discretion may choose to do so.

Risks in Investment Strategies

There are risks in *CS Value Equity* securities, and will exist in a variety of forms both known and unknown. Our recommendations often involve securities that are discounted by a lack of liquidity. This lack of liquidity is often exacerbated during market declines and periods exhibiting higher than normal volatility. This means that to exit some of these investments may be very difficult and very costly, depending on market conditions.

Our recommendations also often include securities that have a minority share discount. This means that other groups or individuals may effectively or mathematically control the decision making policies and procedures of the securities we invest in. The objectives and decisions of majority shareholders might not be properly aligned with your objectives. There is often no legal recourse for the decisions that majority shareholders make if they adversely affect your investment.

We also invest in securities that may be discounted due to lack of marketability. This means that it may be difficult to liquidate a security that has been purchased, often because the security may be in an industry currently not considered fashionable or attractive by the broader investment community due to less available information compared to more widely held securities. This could cause the value of your investment to decline if one or more other investors decide to sell the securities.

Risks to fixed income investing include changes in interest rates (higher interest rates cause bond prices to fall), reinvestment risk (lower interest rates when reinvesting bond interest and maturing principal), early redemption (putting at risk a premium paid), lack of disclosure, and changes in the credit quality of the issuing entity. Tax-exempt municipal bonds are also subject to risk from changes in current tax law (the loss of tax-exemption - either federal or state - would cause the bond value to decrease to reflect the new tax liability).

Risks in Recommendation of Particular Types of Securities

However, we may advise on other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with the investment.

Stocks: There are numerous ways of measuring the risk of equity securities (also known simply as "equities" or "stock"). In very broad terms, the value of a stock depends on the financial health of the company issuing it. However, stock prices can be affected by many other factors including, but not limited to the class of stock (for example, preferred or common); the health of the market sector of the issuing company; and, the overall health of the economy. In general, larger, better established companies ("large cap") tend to be safer than smaller start-up companies ("small cap") are but the mere size of an issuer is not, by itself, an indicator of the safety of the investment

Bonds: Corporate or government debt securities (or "bonds") are typically safer investments than equity securities, but their risk can also vary widely based on: the financial health of the issuer; the risk that the issuer might default; when the bond is set to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same rate of return.

Municipal Securities: Municipal securities, while generally thought of as safe, can have significant risks associated with them including, however not limited to: the credit worthiness of the governmental entity that issues the bond; the stability of the revenue stream that is used to pay the interest to the bondholders; when the bond is due to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same amount of interest or yield to maturity.

Options Contracts: Options are complex securities that involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. It is generally recommended that you only invest in options with risk capital. 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 (the "expiration date"). The two types of options are calls and puts.

A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires. A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

The option trading risks pertaining to options buyers include the risk of losing your entire investment in a relatively short period of time. The risk of losing your entire investment increases if, as expiration nears, the stock is below the strike price of the call (for a call option) or if the stock is higher than the strike price of the put (for a put option). European style options which do not have secondary markets on which to sell the options prior to expiration can only realize its value upon expiration. Specific exercise provisions of a specific option contract may create risks and regulatory agencies may impose exercise restrictions, which stops you from realizing value.

Selling options is more complicated and can be even riskier. The option trading risks pertaining to options sellers include the fact that options sold may be exercised at any time before expiration. Call options can be exercised outside of market hours such that effective remedy actions cannot be performed by the writer of those options. Covered call traders forego the right to profit when the underlying stock price rises above the strike price of the call options sold and continues to risk a loss due to a decline in the underlying stock. Writers of call options could lose more money than a short seller of that stock could on the same rise on the underlying stock. This is an example of how leverage in options can work against the options trader.

Writers of naked calls risk unlimited losses if the underlying stock rises, and writers of naked puts risk unlimited losses if the underlying stock drops. In addition in such cases, writers of naked positions run margin risks if the position goes into significant losses. Such risks may include liquidation by the broker. Writers of naked calls are obligated to deliver shares of the underlying stock if those call options are exercised. Writers of stock options are obligated under the options that they sold even if a trading market is not available or that they are unable to perform a closing transaction. The value of the underlying stock may rise or decline unexpectedly, leading to automatic exercises.

The complexity of some option strategies is a significant risk on its own. Option trading exchanges or markets and option contracts themselves are always open to changes. Options markets have the right to halt the trading of any options, thus preventing investors from realizing value. If an options brokerage firm goes insolvent, investors trading through that firm may be affected. Internationally traded options have special risks due to timing across borders.

Equity option trading risks are closely related to stock risks as equity options are a derivative of stocks.

Disciplinary Information

Caldwell or its management have not been subject to legal or disciplinary events that are required to be disclosed in this brochure.

Other Financial Industry Activities and Affiliations

Broker-Dealer Registration

Caldwell Sutter's investment adviser representatives are also registered representatives as the firm is duly registered. Advisor's may act as registered representatives and may purchase or sell securities for client accounts for additional commission-based compensation. Clients are not obligated to open brokerage accounts through the broker-dealer.

Licensed Insurance Agency

Our firm is also licensed as an insurance agency. Therefore, persons providing investment advice on behalf of our firm may be licensed as insurance agents. These persons will earn commission-based compensation for selling insurance products, including insurance products they sell to you. The fees you pay our firm for advisory services are separate and distinct from the commissions earned by Insurance Agents. This presents a conflict of interest because Advisors may have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

Registered Municipal Advisor

Our firm is also a registered municipal advisor.

Other Relationships and Arrangements

In 2010, Richard Saso, CPA transferred his registrations as broker-dealer and investment advisory representative to Caldwell, and his office in San Ramon became a branch of the firm. Mr. Saso is the branch manager of the San Ramon office. We publish two different versions of our brochure, this one describing in greater detail the Sausalito office. To inquire further, consult the San Ramon office brochure by calling Richard Saso at 925-275-9111 or e-mailing him at rich.saso@cald.com.

As a California Certified Public Accountant, performs federal and state income tax services for clients through an affiliate, Richard A. Saso, CPA, Inc. Fees for these services vary depending on the time and expense required for the service, but range from \$100 to \$300 per hour. Fees are billed at month-end or upon completion of the work. In certain instances, advance retainers may be requested. Generally, there are no written contractual agreements for these services although, in some instances, clients may be requested to sign an engagement letter. Tax preparation clients of Caldwell may be referred to and performed by the affiliated independent CPA firm of Richard A. Saso, CPA, Inc. Fees are based on an hourly rate. The fee charged to the client by Mr. Saso may be more or less if paid by the client to some other independent accounting or CPA firm. You are under no obligation to utilize the CPA services of Mr. Saso. If presently doing so, clients may discontinue service at any time without penalty.

Selection of Investment Advisers

Caldwell does not recommend or select other investment advisers for our clients, except to the extent that we may recommend other limited partnerships or private funds for an advisory client to invest in. However, Caldwell will still supervise the status of that investment and will still consider it part of its own investment recommendations.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

Caldwell has a Code of Ethics that maintains just and equitable standards of conduct for the firm and its representatives. It requires advisers to follow all applicable rules and laws and disclose its holdings and transactions to determine if conflicts of interest exist. A copy of the Code of Ethics will be furnished to any client or prospective client upon request.

Principal Transactions

We direct trades to Caldwell as a broker-dealer acting on a principal basis, where Caldwell and/or its employees buy securities from or sell securities directly to our clients. These transactions present a conflict of interest as both Caldwell and our employees could earn transactional fees (mark-ups or mark-downs) from such transactions which could create an incentive to execute client orders in this manner. However, we do not charge clients fees or commissions other than our cost to execute the trade. Advisers are not compensated for these transactions. We will only perform these transactions when we believe the transaction is in your best interest and not prior to disclosing the price of the security and other best quoted prices, and obtaining your consent to perform the transaction.

Agency Cross Transactions

An agency cross transaction for an advisory client occurs when we, or one of our affiliates, acts as a broker for a transaction in which one of our advisory clients is on one side of the transaction and another person is on the other side of the transaction. We may, when we consider the transaction to be in your best interest, execute such transactions. We could receive compensation from each party to the transaction and would therefore have a conflict of interest. We will require your consent prior to each such transaction. We will review all trades executed as an agency cross for compliance with our best execution policy.

Interest in Client Transactions

Caldwell and its representatives may recommend to clients that they buy or sell securities or other investment products in which we, or a related account, has some financial interest. This may lead to changes in the price of the securities that may benefit us.

Personal Trading

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities.

Timing of Personal Trades

In cases where transactions for clients and Caldwell and its related accounts occur in the same security on the same day at different prices, the better prices will be assigned to client transactions first.

Block Trading

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Refer to the *Brokerage Practices* section in this brochure for information on our block trading practices.

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities.

Brokerage Practices

Caldwell typically recommends a broker-dealer that fits best with the portfolio management style that the customer is receiving. Due to getting better service executing the transactions for investments described in *Methods of Analysis, Investment Strategies and Risk of Loss*, we recommend ourselves as the broker-dealer, with Wedbush Securities Inc. as the custodian of your funds and securities. This affords us the flexibility to execute transactions with more favorable results than might be possible acting purely as an investment adviser. Clients are not obligated to open brokerage accounts through the broker dealer.

However, other factors may influence the choice of broker-dealer, such as whether your adviser is registered as a registered representative. If they are not, then we recommend TD Ameritrade Institutional, Inc. as the broker-dealer and custodian of your funds and securities, so that your adviser may act purely as an investment adviser.

Research and Soft Dollars

Caldwell does not have any soft dollar arrangements, in which an investment manager would direct the commission generated by the transaction towards a third party or in-house party in exchange for services that may be for the benefit of the client but are not client directed.

Client Referrals from a Broker-Dealer

We do not receive client referrals from any of the broker-dealers that our clients have accounts with.

Directed Brokerage

Persons providing investment advice on behalf of our firm who are registered representatives of Caldwell Sutter Capital, Inc. will recommend Caldwell Sutter Capital, Inc. to you for brokerage services. These individuals are subject to applicable rules that restrict them from conducting securities transactions away from Caldwell Sutter Capital, Inc. unless Caldwell Sutter Capital, Inc. provides the representative with written authorization to do so. Therefore, these individuals are generally limited to conducting securities transactions through Caldwell Sutter Capital, Inc. It may be the case that Caldwell Sutter Capital, Inc. charges higher transactions costs and/or custodial fees than another broker charges for the same types of services. If transactions are executed through Caldwell Sutter Capital, Inc., these individuals (in their separate capacities as registered representatives of Caldwell Sutter Capital, Inc.) may earn commission-based compensation as result of placing the recommended securities transactions through Caldwell Sutter Capital, Inc. This practice presents a conflict of interest because these registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs.

Persons providing investment advice on behalf of our firm who are only investment adviser representatives and not registered representatives of Caldwell Sutter Capital, Inc. will normally recommend TD Ameritrade Institutional to you for your brokerage services. However, registered representatives of Caldwell Sutter Capital, Inc. may also recommend this option, and the client may so direct Caldwell Sutter Capital, Inc. to use TD Ameritrade Institutional for your brokerage services.

You may utilize the broker-dealer of your choice and have no obligation to purchase or sell securities through such broker as, we recommend. However, if you do not use Caldwell Sutter Capital, Inc. or TD Ameritrade Institutional, we may not be able to accept your account. See the *Fees and Compensation* section in this brochure for more information on the compensation received by registered representatives who are affiliated with our firm.

In limited circumstances, and at our discretion, some clients may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on your behalf. This practice may also prevent our firm from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

Not all advisers require clients to direct brokerage.

Block Trades

We combine multiple orders for shares of the same securities purchased for discretionary advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. Generally, participating accounts will pay a fixed transaction cost regardless of the number of shares transacted. In certain cases, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs on any given day. In the event an order is only partially filled, the shares will be allocated to participating accounts in a fair and equitable manner, typically in proportion to the size of each client's order. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

We do block trades for non-discretionary accounts where possible. Your ability to be included in our block trade on a non-discretionary basis may, however, be subject to our ability to contact you to recommend securities for your account. In the cases where we are unable to do so, non-discretionary accounts may pay different costs than discretionary accounts pay. If you enter into non-discretionary arrangements with our firm, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than clients who enter into discretionary arrangements with our firm.

Review of Accounts

Reviews are both security and account, oriented. Account investments are typically concentrated in a limited number of securities, which are reviewed frequently and in depth. Caldwell relies on cross-reference files to relate securities to the accounts holding them. However, Caldwell does review accounts and take into account the client's stated objectives and circumstances, along with the weighting between *CS Value Equity* and *CS Value Income* securities in the account to monitor the appropriateness of the investments in the account.

Caldwell's principal officers review accounts assigned to them no less than annually. In addition, the Chief Compliance Officer, Christopher Anderson will also review holdings and account statements no less than annually.

Caldwell relies on periodic statements from the custodians of its clients' accounts, Wedbush Securities, Inc. and TD Ameritrade, furnished quarterly and any other month when the account is active.

Caldwell will not provide you with regular written reports. You will receive trade confirmations and monthly or quarterly statements from your account custodian(s).

Client Referrals and Other Compensation

As disclosed under the *Fees and Compensation* section in this brochure, persons providing investment advice on behalf of our firm are registered representatives with Caldwell Sutter Capital, Inc., a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. For information on the conflicts of interest this presents, and how we address these conflicts, refer to the *Fees and Compensation* section.

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

Refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with your account custodian.

Custody

Caldwell does not act as custodian of client funds. Clients will receive account statements and trade confirmations directly from the custodian of their assets. These documents are the only documents that should be relied upon for tax filing and portfolio valuation purposes and are solely the responsibility of the custodian. Clients are urged to compare the portfolio appraisal and performance report sent by Caldwell with the reports provided by the custodian. Discrepancies should be brought to our attention immediately.

Caldwell has custody by allowing clients to request a standing letter of instruction or other similar asset transfer authorization arrangement (hereafter "SLOA"). These instructions allow the client to authorize the custodian to transfer or otherwise disburse assets to a third party upon receipt of notice from the advisor. Caldwell is subject to a surprise examination requirement each year in accordance with the custody Rule 206(4)-2.

Investment Discretion

Caldwell Sutter Capital, Inc. may exercise discretion over its clients' accounts. The firm has the ability to establish both discretionary and non-discretionary accounts.

Suitability parameters, as the client and the adviser establish in the initial interview, are the overriding limitation on any discretion. Also, to exercise discretion, the firm must first obtain each client's written and signed permission to be able to do so, using a Limited Power of Attorney (LPOA) for that stated purpose. This LPOA is very limited in its use and only applies to approved assets held at the mutually agreed upon custodian. This allows the firm to make any necessary changes to the client's allocation. A client may revoke the permission at any time. For any client choosing to allow discretion with regard to the client's account(s), the firm will select securities and allocations that it determines to be appropriate in keeping with the client's stated guidelines. A client will always be informed of all such transactions through the confirmations sent from the custodian.

If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

Voting Client Securities

Our policy is to not vote client proxies. It is your responsibility to vote proxies. We are, however, willing to advise you how to vote a proxy, if requested.

Under normal circumstances, your account is set up to allow issuers or their third party servicing agents to mail company specific information, including proxy materials, to you. You will always receive proxy materials forwarded from either these companies or forwarded from your custodian.

However, under specific circumstances that Caldwell determines at its discretion that an action taken by the issuer of securities in your account is detrimental to your interest in those securities, and where specific authorization exists in the advisory contract, Caldwell may vote or take other action regarding proxies for securities in your account. Should such an instance occur, we would get written authorization for voting on your behalf which includes the action taken regarding proxies in your account and the reason for taking such action.

In the event that we do vote proxies on your behalf, we are only allowed to vote in your best interest. Any transactions that occur that are related to the proxy voting will be under heightened supervision. No transaction may occur that would be at odds with your interests. A review of such transactions is performed by your adviser's supervisor.

When allowing for proxy voting, you will be sent, and may request at any time a copy of our policies and procedures with respect to proxy voting. You may also direct our vote in any proxy vote. You may also request how your adviser voted in any proxy vote by calling the number on the cover page of the brochure and asking for Compliance.

Financial Information

Caldwell does not require or solicit prepayment of \$1,200 in fees per client six months in advance, so a balance sheet is not disclosed here. We have not filed a bankruptcy petition at any time in the past ten years. Further, there is no financial condition of Caldwell that is reasonably likely to impair our ability to meet contractual commitments to clients.