



**AFAM Capital, Inc.  
221 West 6<sup>th</sup> Street  
5<sup>th</sup> Floor  
Austin, TX 78701**

**512.354.7041**

**[www.afamcapital.com](http://www.afamcapital.com)**

**May 18, 2018**

This Brochure provides information about the qualifications and business practices of AFAM Capital, Inc. If you have any questions about the contents of this Brochure, please contact us at 512.354.7041. The information in this Brochure has not been approved nor verified neither by the United States Securities and Exchange Commission nor by any state securities authority.

AFAM Capital, Inc. is a registered investment adviser. Registration of an Investment 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 AFAM Capital, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This Item discusses only specific material changes that are made to the Brochure and provides clients with a summary of such changes. Our last update was filed on March 31, 2018. We last filed an update to our Brochure on the same date. The firm has since made the following material changes:

- Effective May 4, 2018, AFAM relocated its headquarters to 221 West 6<sup>th</sup> Street, 5<sup>th</sup> Floor, Austin, TX 78701 from 12117 FM 2244, Building 3, Suite 170, Austin, TX 78738.
- Pursuant to a change in leadership, Cynthia Mendoza transitioned into the position of Vice President, Operations and Chief Compliance Officer effective April 20, 2018.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other on-going disclosure information about material changes as necessary.

We will further provide you with a new Brochure, as necessary, based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Cynthia Mendoza, Vice President, Operations and Chief Compliance Officer, at 512.354.7041, or [cmendoza@afamcapital.com](mailto:cmendoza@afamcapital.com). Our Brochure is also available on our web site [www.afamcapital.com](http://www.afamcapital.com), also free of charge.

Additional information about AFAM Capital, Inc. is also available via the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with AFAM Capital, Inc., who are registered, or are required to be registered, as investment adviser representatives of AFAM Capital, Inc.

### **Item 3 -Table of Contents**

Item 1 – Cover Page.....	1
Item 2 – Material Changes .....	2
Item 3 -Table of Contents.....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation.....	5
Item 6 – Performance based Fees and Side by Side Management.....	5
Item 7 – Types of Clients .....	6
Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss .....	6
Item 9 – Disciplinary Information .....	8
Item 10 – Other Financial Industry Activities and Affiliations .....	9
Item 11 – Code of Ethics .....	9
Item 12 – Brokerage Practices .....	10
Item 13 – Review of Accounts .....	11
Item 14 – Client Referrals and Other Compensation.....	11
Item 15 – Custody.....	11
Item 16 – Investment Discretion.....	12
Item 17 – Voting Client Securities.....	12
Item 18 – Financial Information.....	13
Supervised Persons.....	14

## Item 4 – Advisory Business

The following information describes the investment advisory services of AFAM Capital, Inc. (“AFAM”) or (“the Firm”) and Al Frank Asset Management, a division of AFAM Capital, Inc.

AFAM is an independent investment advisor registered with the Securities and Exchange Commission (“SEC”) and wholly owned by AF Holdings, Inc. The firm was founded in 1977 by equity value manager Al Frank (1930-2002) and commenced operations as an investment advisor in 1987. AFAM is headquartered in Austin, Texas.

AFAM provides investment management services to separate account clients and serves as investment adviser to the Al Frank Fund. We also edit and publish *The Prudent Speculator* investment newsletter.

AFAM’s investment management services are typically provided on a discretionary basis and limited to the strategies outlined in Section 8: Methods of Analysis, Investment Strategies, and Risk of Loss. Investment allocation decisions are based upon a number of factors, including your completion of a client worksheet that gives us information about your investment objectives, risk tolerance, and time horizon, and conversations with you about the same.

When you engage our managed account services, you enter into a written Investment Management Agreement with us. You authorize us to have access to your account in order to manage it according to the strategy or strategies selected. The Investment Agreement outlines the nature of our duties, lists applicable fees, contains required disclosures, and contains certain limits to our liability. The Investment Agreement also specifies that we have the power to vote proxies with respect to securities held in the account(s) unless you instruct us otherwise. It is possible for you to impose restrictions on investing in certain securities, though that may limit our ability to execute the strategy as described above.

We are a sub-advisor for various wrap and platform programs. We receive a portion of the total fee charged by the wrap and platform sponsor as negotiated with each firm sponsor. We offer services through various wrap fee programs and other turnkey asset management programs (TAMP) whereby we receive a fee for providing investment models for use in the third party model programs based on the market value of the assets being managed. These program sponsors provide a complete description of the TAMP and wrap/platform terms and conditions including fees, in their respective ADV Part 2As. Because we do not have primary relationship responsibilities in these situations, program sponsors are responsible for providing their Form ADV Part 2As and other required documents - such as Privacy Policies - to each participating client.

The fees paid to AFAM may vary from the schedule of fees stated in Item 5: Fees and Compensation and between different wrap programs. In addition, clients participating in a wrap program may not be subject to AFAM’s minimum account size that may otherwise apply to other separately managed accounts. Wrap programs in which AFAM currently participates are identified in AFAM’s Form ADV Part 1A.

As of December 31, 2017, we managed approximately \$950.9 million on a discretionary basis (Assets Under Management) and \$740.9 million on a non-discretionary basis (Assets Under Advisement).

We recommend stocks in *The Prudent Speculator* (“TPS”) that John Buckingham, other employees, the Fund, managed clients, or model portfolios may already own. Model Portfolios (for the newsletters) are actual or hypothetical portfolios posted on our Web site [www.prudent-speculator.com](http://www.prudent-speculator.com). Every new newsletter transaction is listed in the Sales Alerts and may also be listed in the Market Commentary or newsletter. When buying stocks for managed accounts, their orders are placed ahead of any employee’s order. When first-time recommendations are made in the newsletters, AFAM employees shall abide by the personal trading restrictions as outlined in Item 11 – Code of Ethics.

No access person for the Fund may trade ahead of the Fund. We sometimes trade stocks not recommended in the newsletters in order to average down or up, balance portfolios, meet margin calls or meet client requests for cash or specific stocks.

## **Item 5 – Fees and Compensation**

We bill our clients for our management services on a quarterly basis. Fees are payable at the beginning of each three-month period. The fee schedule is applied to the fair market value of the assets of the Account(s) as of the beginning of the three-month period. Multiple portfolios of each client are combined to effect fee savings. Unless otherwise agreed, fees are debited directly from the cash balance of the account. Initial fees are prorated to the extent the period from that date of the Investment Management Agreement is less than a full three-month period. At the termination of the Investment Management Agreement, we refund on a prorated basis any fees paid in advance.

The fee-schedule is as follows:

- 1.50 percent per annum (0.375% per quarter) of the first \$500,000, and
- 1.25 percent per annum (0.3125% per quarter) of the next \$500,000, and
- 1 percent per annum (0.25% per quarter) of amounts above \$1,000,000.

Some clients may pay fees that are different from those listed above either because the client agreed to a previous fee schedule no longer in effect or because special fees may be negotiated with individual clients or advisors. Fees may be negotiable.

We generally charge 50% of our regular fee for the Fixed Income ETF portfolio.

We recommend Charles Schwab & Co., Inc. (“Schwab”), and Fidelity Brokerage Services, LLC (“Fidelity”). They have consistently provided excellent brokerage services, which include: competitive execution rates, trading resources, back office support, electronic account data and seamless account transfers. In certain very limited instances, we may allow brokerage services and custody at a brokerage firm other than Schwab and Fidelity. You may be charged an additional fee in these situations because more manual work is involved.

If you also invest in our mutual fund, you pay fees as detailed in the prospectus for the fund (available by calling or writing us or on our website at [www.alfrankfunds.com](http://www.alfrankfunds.com)).

We will not begin management of your portfolio until all required documents are executed by you and received by us in good order. AFAM reserves the right to bill on a pro-rata basis until such time that notification of intent to terminate an agreement is received. Notification may be communicated in writing, via telephone, or by email.

You may incur certain charges imposed by your broker-dealer or custodian, such as custodial fees and charges imposed directly by a mutual fund or exchange traded fund in the account, which will be disclosed in that fund’s prospectus. For assets held outside of a wrap fee program, you may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to our management fee.

As an accommodation, non-fee paying accounts may be set up for clients and/or their family members in which assets are solely invested our mutual fund. The accounts are not actively managed, and we do not send out reports or statements for these accounts.

John Buckingham and other AFAM investment professionals speak at investment seminars and other functions for various organizations for negotiated honoraria and expenses.

The current subscription rates for *The Prudent Speculator* are \$495 for two years, \$295 for one year, or \$28 per month.

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

AFAM does not manage accounts using a performance-based fee (fees based on a share of capital gains or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

We provide portfolio management services to individuals, including high net worth individuals, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities. We also are advisor to the AI Frank Fund.

We currently request that new asset management clients invest a minimum of \$500,000. We will accept less than the minimum in some situations or for certain products. Should you engage our firm to provide portfolio management services, please be aware that you will be giving our portfolio managers discretion to buy and sell securities within your account.

We are a sub-advisor for various wrap and platform programs. Clients participating in a wrap program may not be subject to AFAM's minimum account size. We also provide our model investment frameworks to certain financial service intermediaries by agreement, and we receive a fee for this service.

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

We generally provide management services for exchange-listed and over-the-counter traded equity securities and exchange traded products (primarily exchange traded funds). We do not generally analyze or manage commercial paper, bank certificates of deposit, municipal securities, U.S. government securities, option contracts on commodities, or interests in partnerships (except for master limited partnerships traded on exchanges). However, we may provide advice on any type of investment held in a client's portfolio at the start of the advisory relationship.

We use Bloomberg as our primary data source for analytics.

AFAM's AI Frank Asset Management division manages discretionary accounts (portfolios) by buying, holding and selling stocks in widely diversified portfolios to be held for long-term capital appreciation. We select equity securities that we believe are out of favor and undervalued, and hold them until we believe that the securities have reached a fair value or until our research finds a candidate with more attractive risk/reward attributes or the stock's evolved risk/reward profile fails to justify continued ownership. Stock selection is not limited by size, and, unless otherwise noted, portfolios may be invested in companies of any market capitalization.

- The Select SMid Dividend strategy includes primarily micro, small and mid-cap dividend paying stocks and seeks broad diversification to a significant number of major market sectors and industry groups. Leeway for market appreciation is allowed as stocks may move into the large capitalization category. Portfolios are initially constructed with 70 to 90 positions.
- The Select Focused Value strategy generally includes both dividend and non-dividend paying stocks and seeks broad diversification via exposure to a significant number of major market sectors and industry groups with a concentrated approach. Portfolios are initially constructed with 30 to 35 positions.
- The Select Value strategy includes both dividend and non-dividend paying stocks and seeks broad diversification via exposure to a significant number of major market sectors and industry groups. Portfolios are initially constructed with 70 to 90 positions.
- The Prudent Speculator strategy generally mirrors the TPS portfolio, the basis for *The Prudent Speculator* newsletter. The strategy includes both dividend and non-dividend paying stocks and seeks broad diversification via exposure to a significant number of major market sectors and industry groups. Portfolios are initially constructed with 70 to 90 positions. Investment minimums are lower in this strategy, and as a result, do not include the same level of access to the portfolio management team.
- The Select Focused Dividend strategy generally includes dividend-paying stocks and seeks broad diversification via exposure to a significant number of major market sectors and industry groups with a concentrated approach. Portfolios are initially constructed with 30 to 35 positions.
- The Select Dividend strategy generally includes dividend-paying stocks and seeks broad diversification via exposure to a significant number of major market sectors and industry groups. Given the dividend-emphasis, portfolios are initially constructed with 60 to 80 securities.

AFAM's ETF portfolios utilize exchange traded products, primarily exchange traded funds (ETFs), to implement strategies that seek to outperform their benchmarks on a risk-adjusted basis through diversification, active management, style integrity, minimized security selection risk, trading and cost efficiency. The following strategies are offered as ETF portfolios.

- The Global All Asset Portfolios comprise separate portfolios along three risk preference levels, each distinguished by an asset allocation to a broad range of asset class exposures, which are incorporated into the portfolios using ETFs that reference equity, commodity, REIT and fixed income asset classes. The three Global All Asset portfolios are: Conservative, Moderate, and Growth.
- The Global All Asset Opportunity Portfolios use the same framework as the Global All Asset Portfolios, but implement the strategy using leveraged ETFs in specific equity asset classes to obtain similar exposure as the Global All Asset Portfolios, but with a lower dollar allocation. The remaining capital is then deployed to try to optimize the investment characteristics of each portfolio. The Global All Asset Opportunity portfolios are also available as Conservative, Moderate and Growth products. The use of leverage can magnify gains and losses in a portfolio.
- The Rotation Portfolios utilize a quantitative approach to determine investment exposures to equities, fixed income and/or alternative asset classes. The portfolios seek exposure to specific equity markets when the prospective risk-relative return for a given market is deemed favourable. The Country Rotation Portfolio considers investment in over 40 international equity markets and the Sector Rotation Portfolio considers investment in US-sector equity markets and sub-markets as defined by GICS. The Rotation Portfolios may utilize leveraged, inverse and inverse leveraged ETFs, which can magnify gains and losses.
- The Fixed Income Portfolio utilizes a quantitative approach to determine investment exposures across a range of fixed income sectors. The strategy seeks to generate above-average yield with strict risk controls by consistently investing in those fixed income sectors that have strong risk-adjusted performance potential and eligible exchange traded fund representation.

The Dynamic Portfolio Series combines the international asset allocation Country Rotation portfolio component with Al Frank's long-term oriented domestic equity portfolio component and then anchors that combination with a fixed income weighting. The strategies seek to provide benchmark-beating returns through:

- Income-generating stability through fixed-income
- International adaptability
- Patient selectivity in domestic equities

The three Dynamic Portfolio Series portfolios are: Conservative (50% fixed income, 25% tactical, 25% strategic); Moderate (35% fixed income, 32.5% tactical, 32.5% strategic); and Growth (40% tactical, 40% strategic, 20% fixed income).

In addition to AFAM's proprietary quantitative and qualitative research, the firm also uses research services provided by Innealta Capital, LLC to help inform ETF investment decisions.

It is possible for you to use margin (borrowed money that is used to purchase securities) with these strategies. Use of margin magnifies both gains and losses and subjects you to unique risks, such as interest payments for use of borrowed money. We set limits on use of margin and will require you to sign a margin agreement if you want to use margin.

The value of an investment and the return on invested capital will fluctuate over time and, when sold or redeemed, may be worth less than its original cost. Investing in securities involves risk of loss that clients should be prepared to bear. Investing in securities of small and medium-sized companies may involve greater volatility and risk. ETFs are subject to risks similar to those of stocks, such as market risk, and you may experience losses.

Risks specific to AFAM's strategies include the following:

**Management Risk** – The ability to achieve various investment objectives depends on the ability of the investment team to correctly identify economic trends and select stocks, particularly in volatile stock markets.

**Market Risk** – The value of stocks and other securities under management, or the overall stock market, may decline over short or extended periods.

**Small- and Medium-Sized Companies Risk** – Small- and medium-sized companies may be more vulnerable to adverse business or economic events than stocks of larger companies. These stocks present greater risks than securities of larger, more diversified companies.

**Equity Risk** – The equity securities held in various portfolios may experience sudden, unpredictable drops in value or long periods of decline in value. This may occur because of factors that affect securities markets generally or factors affecting specific industries, sectors or companies in which AFAM invests.

**Value Style Investing Risk** – The value investing style may over time go in and out of favor. At times when the value investing style is out of favor, certain strategies may underperform other strategies that use different investing styles.

To the extent that AFAM strategies invest in ETFs that seek to provide investment results that are the inverse (opposite) of the performance of an underlying index, you will indirectly be subject to the risk that the performance of such ETF will fall as the performance of that ETF's benchmark rises. In addition, some ETFs may utilize leverage (i.e., borrowing) to acquire their underlying portfolio investments. The use of leverage may exaggerate changes in an ETF's share price and the return on its investments.

Accordingly, the value of AFAM's investments in ETFs may be more volatile and all other risks, including the risk of loss of an investment, tend to be compounded or magnified. As a result of compounding, inverse and leveraged ETFs often have a single day investment objective. An inverse ETF's performance for periods greater than one day is likely to be either greater than or less than the inverse of the index performance as stated in the ETF's objective. Similarly, a leveraged ETF's performance for periods greater than one day is likely to be either greater than or less than the index performance times the stated multiple in the ETF's objective. This effect becomes more pronounced for these types of ETFs as market volatility increases. Investments by AFAM in inverse and leveraged ETFs may result in increased volatility of returns. These types of investments may prevent AFAM from achieving stated investment objectives.

Fixed income (bond) ETFs are subject to interest rate risk which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Securities rated below investment grade, commonly referred to as "junk bonds", may involve greater risks than securities in higher rating categories. Junk bonds are regarded as speculative in nature, involve greater risk of default by the issuing entity, and may be subject to greater market fluctuations than higher rated fixed income securities.

Sector ETFs, such as Real Estate Investment Trusts ("REITs") are subject to industry concentration risk, which is the chance that stocks comprising the sector ETF will decline due to adverse developments in the respective industry.

Country/Regional risk is the chance that world events such as political upheaval or natural disaster will adversely affect the value of securities issued by companies in foreign countries or regions. Investments in foreign investments may incur greater risks than domestic investments. Country/Regional risk is especially high in emerging markets.

Emerging markets risk is that chance that stocks of companies located in emerging markets will be substantially more volatile, and substantially less liquid, than the stocks of companies located in more developed foreign markets.

Diversification does not protect against loss in declining markets.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of AFAM or the integrity of our management. AFAM has no criminal, regulatory, civil, or other actions to report applicable to this item.

## Item 10 – Other Financial Industry Activities and Affiliations

We act as advisor to the AI Frank Fund (the “Fund”).

The AI Frank Fund is a diversified series of shares of beneficial interest of Northern Lights Fund Trust II, a statutory trust organized under the laws of the State of Delaware on August 26, 2010, and are registered under the Investment Company Act of 1940, as amended, as open-end management investment companies. The AI Frank Fund began operations January 2, 1998. The investment objective of the AI Frank Fund is to seek growth of capital by investing in out of favor and undervalued equity securities. For more information and a prospectus, phone 888.263.6443 or contact our office.

The prospectus contains more complete information, including risks, fees and expenses. Read it carefully before you invest. Certain AFAM employees maintain FINRA registrations through Northern Lights Distributors, LLC, the distributor for the AI Frank Fund.

**We have business arrangements with firms that allow the listing of AFAM on their intranet sites and opportunities to participate in conferences and meetings, for a fee. We are party to licensing agreements whereby we provide investment models for use in third party model programs. We may receive referrals from these business relationships.**

## Item 11 – Code of Ethics

We maintain, monitor and enforce a formal Code of Ethics and Standards of Professional Conduct for our employees. It is our policy that each employee conducts his or her business affairs with such standards of integrity that all real and potential conflicts of interest are either eliminated or fully disclosed so that no other conflict of interest exists or can be implied or construed. Employees and Access Persons complete Conflicts of Interest disclosure questionnaires, which are reviewed and approved or not approved by AFAM’s Chief Compliance Officer.

The Company has also adopted the CFA Institute’s “Code of Ethics and Standards of Professional Conduct.”

The Code of Ethics describes our fiduciary duty to you and outlines our high standards of business conduct. The Code includes, but is not limited to, provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and business entertainment items, and personal securities trading procedures. All supervised persons at AFAM must acknowledge the terms of the Code at the inception of employment and annually thereafter, or upon the amendment of the Code. The AFAM Code includes policies and procedures reasonably designed to prevent the misuse of material non-public information by investment advisers. The Code also contains procedures with respect to personal securities transactions of all AFAM officers and employees (“Access Persons”). These procedures cover transactions in a security in which the Access Person has a beneficial interest or in accounts over which the Access Person exercises control, as well as transactions by members of their immediate family.

The Code directs Access Persons of AFAM to conduct their affairs, including their personal securities transactions, in such manner to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the firm and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility. This fiduciary duty includes the duty of the Chief Compliance Officer of AFAM to report material violations of the Code to AFAM’s Senior Management and Board of Directors. All Access Persons complete a personal securities transaction report to the Chief Compliance Officer quarterly.

The Code also is designed to assure that the personal securities transactions, activities and interests of the employees of AFAM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) the implementation of such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of our clients.

In addition, the Code restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee

trading is continually monitored under the Code of Ethics, and it is the goal of the firm to reasonably prevent conflicts of interest between AFAM and its clients.

You can request a copy of our Code of Ethics by contacting AFAM's Chief Compliance Officer at the phone number listed on the cover of this brochure.

## **Item 12 – Brokerage Practices**

We encourage clients to use Schwab Institutional, a division of Charles Schwab & Co., Inc. (“Schwab”) and Fidelity Brokerage Services, LLC (“Fidelity”). If you direct brokerage to a provider other than Schwab or Fidelity, you may pay higher commissions in some instances, depending on our ability to negotiate commissions, obtain volume discounts or best execution from the broker selected.

We select brokers principally on the basis of their commission rates and quality of execution and service, not on the basis of any products, research or “soft dollars.”

Some of the brokerage firms utilized for trading provide a FIX (financial information exchange) connection free of charge in order to facilitate accurate and timely information regarding trades. Please note that AFAM does not direct trades based upon the availability of these connections, nor is the pricing of trades placed using a FIX-connected broker affected by these connections.

You are responsible for verifying that they are receiving best execution if you direct your brokerage to a provider other than our recommended brokers. Best execution refers to our obligation on your behalf to ensure that the prices on trade orders we execute on your behalf receive and reflect the optimal mix of price improvement, speed and likelihood of execution.

Schwab Institutional and Fidelity provide AFAM with access to their institutional trading and operations services, which are typically not available to Schwab or Fidelity retail investors. Schwab Institutional and Fidelity also make available to AFAM other products and services that benefit AFAM but may not benefit your account(s), such as periodic and limited commission free trades. Some of these other products and services assist AFAM in managing and administering clients' accounts. Schwab Institutional and Fidelity may also provide AFAM with other services intended to help AFAM manage and further develop its business enterprise. Schwab Institutional and Fidelity may discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of a third-party providing these services.

Our authority to manage and trade extends only to those amounts agreed upon under our management. In discretionary accounts, we have the authority to determine, without obtaining your current consent before the transactions are affected, both the securities that are to be bought or sold and the amount of such securities. The only limitations on our authority are those you may impose by specifying that you wish to avoid certain types of stocks, e.g., nuclear utilities, tobacco or liquor stocks.

We may occasionally co-sponsor educational or client events with certain broker-dealers or custodians.

On the occasion that we transact the same security, at the same time, for multiple accounts, it is the policy of the firm to utilize a random order execution and allocation system. In certain instances, based upon factors such as the size of a trade, liquidity of a security, and/or execution strategy, the firm may elect to trade outside the random sequence in order to seek the most favorable executions possible pursuant to our fiduciary responsibility to our clientele. The firm is able to route orders via our order management system to multiple FIX-connected brokers simultaneously and thus may route orders for execution across multiple custodians at the same time. In addition, step-out trading may be utilized to achieve simultaneous executions for accounts housed with different custodians. As such, orders may be aggregated and routed to one executing broker, resulting in the same price for all aggregated accounts. In both instances, divergence from the random sequence may occur due to the inability of some custodians to participate in FIX or step-out trading. Regardless of the trading strategy used, it is always the objective of the firm to ensure that no client, or group of clients, is systematically disadvantaged over time.

Block orders may be used when it is in the best interest of each client participating in the order. Partially filled bunched orders are allocated to the least-invested account when purchasing and the most-invested account when selling.

We request that you to grant authority, in writing, to have management fees deducted directly from your brokerage account.

### **Item 13 – Review of Accounts**

Portfolio managed accounts are generally updated daily by computer, with summaries reviewed that show cash available, debit balance and market value. In addition, updated daily analyses of all followed (including owned) stocks indicate stocks that are buy or sell candidates which then are cross-referenced to stocks held in individual accounts. If you have a question, request, or deposit funds, we will conduct a relative review of your portfolio. If on-going fundamental or technical analyses reveal strategic actions to be taken, discretionary powers are invoked, and we will notify you depending upon the nature of the situation. All portfolios are reviewed by John Buckingham and the portfolio management team.

After an initial setup conference and periodic reviews, trading for discretionary accounts is usually effected without further consultation.

We mail our clients quarterly portfolio reports, quarterly fee statements (see Section 15 “Custody”), and quarterly performance statements (excluding wrap and platform clients, who receive reports directly from the wrap/platform sponsor).

Additionally, interested clients receive *The Prudent Speculator*, our monthly investment advisory publication, and its Sales Alerts and weekly Market Commentary that keep them informed of currently recommended stocks with goal price objectives, recommended stock market strategies and model portfolio changes (excluding wrap and platform clients).

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

We directly compensate a non-employee (outside) entity (Solicitor) for client referrals. In order to receive a referral fee from our firm, a Solicitor must comply with the requirements of the jurisdictions in which they operate. If you were referred to our firm by a Solicitor, you should have received a copy of this disclosure brochure (AFAM’s ADV Part 2A) along with the Solicitor’s disclosure statement at the time of the referral. If you become a client, the Solicitor that referred you to our firm will receive a percentage fee on average daily assets of the product sold for the life of the agreement between the Solicitor and AFAM and shall survive termination of such Agreement for a period of 90 days. This fee will be paid by AFAM and not from any individual account. You will not pay additional fees as a result of this referral agreement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, a Solicitor has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services.

At this time, our agreement is limited to wholesaling (institutional) activities and does not include the solicitation of individual retail clientele.

### **Item 15 – Custody**

We do not take physical custody of clients’ securities or funds and all account deposits and withdrawals must be done directly with the brokerage house. We are deemed by the Securities and Exchange Commission to have custody under Rule 206 (4)-2 of The Act because we request that you give us authority to deduct advisory fees directly from your account(s).

Our clients should receive statements at least quarterly directly from the broker dealer, bank, or other qualified custodian that holds and maintains their investment assets.

We mail our clients quarterly fee statements (excluding wrap and platform clients, who receive reports directly from the wrap/platform sponsor). Clients also receive trade confirmations and monthly statements directly from their broker-dealer or custodian, as all accounts are in the client’s name.

There may be differences between our statements and the statements provided by the custodian because we use end-of-month prices as delivered electronically by a data provider, while brokerage statements may use closing prices of

a day or more before month-end. We urge our clients to carefully review such statements and compare such official custodial records to the account statements that we provide.

### **Item 16 – Investment Discretion**

We receive discretionary authority from you at the beginning of our relationship with you to select the specific securities and amount of those securities to be bought or sold. Terms of this authority are laid out in our Investment Management Agreement. We execute such discretion in a manner consistent with the stated investment strategy of the portfolio(s) we manage on your behalf.

### **Item 17 – Voting Client Securities**

We act as discretionary investment advisor for various clients, including clients governed by the Employee Retirement Income Security Act of 1974 (“ERISA”) and a registered open-end investment company (mutual fund). As advisor, we have authority to vote certain proxies or act with respect to other shareholder actions. We generally vote proxies for securities we have selected that are held in your account(s), unless you tell us in writing that you want to retain the right to vote the proxies.

Where we have been delegated the authority to do so, we will vote proxies and act on all other corporate actions in a timely manner in accordance with our Proxy Voting Policies and Procedures.

When voting proxies or acting with respect to corporate actions for you, our utmost concern is that all decisions are made solely in your best interests (and for ERISA accounts, plan beneficiaries and participants, in accordance with the letter and spirit of ERISA). We will act in a prudent and diligent manner intended to enhance the economic value of the assets of your account(s).

Although many proxy proposals can be voted in accordance with our established guidelines, we recognize that some proposals require special consideration, which may dictate that an exception be made to the guidelines. We are also responsible for ensuring that all corporate action notices or requests which require shareholder action received by us are addressed in a timely manner and consistent action is taken across all similarly situated client accounts.

Where a proxy proposal raises a material conflict between our interests and your interests, such as if you are a mutual fund client, we will resolve such a conflict by voting in accordance with established guidelines; obtaining your consent to the proposed vote prior to voting the security; or forwarding the proxy matters to an independent third party as you direct. We will review the proxy proposal for conflicts of interest as part of the overall vote review process.

We will not vote proxies if we determine that the value of your economic interest or the value of the portfolio holding is indeterminable or insignificant. We also will not vote proxies received for securities that are no longer held in your account(s). In addition, we generally will not vote securities where the economic value of the securities in your account is less than \$500, or in certain circumstances, after doing a cost-benefit analysis, we may abstain from voting where the cost of voting your proxy would exceed any anticipated benefits to you.

We generally will not vote securities that are out on loan, transferred into the borrower’s name and are voted by the borrower, in its discretion. However, where we determine that a proxy vote (or other shareholder action) is materially important to your account(s), we may recall the security for purposes of voting.

These policies and procedures also reflect the fiduciary standards and responsibilities set forth by the Department of Labor for ERISA accounts.

It is the policy of the firm to mirror vote proxies on behalf of the Fund.

Clients may obtain information on how their securities were voted, or receive a copy of our Proxy Voting Policies and Procedures by contacting AFAM’s Chief Compliance Officer at the phone number listed on the cover of this brochure.

## **Item 18 – Financial Information**

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to you. We have not been the subject of a bankruptcy proceeding.

# John Buckingham

## Al Frank Asset Management

30 Enterprise, Suite 210, Aliso Viejo, CA 92656  
949.499.3215

a division of

## AFAM Capital, Inc.

221 West 6<sup>th</sup> Street, 5<sup>th</sup> Floor, Austin, TX 78701  
512.354.7041

May 18, 2018

**This Brochure Supplement provides information about John Buckingham that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Cynthia Mendoza, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.**

### Educational Background and Business Experience

John Buckingham, Chief Investment Officer, has been a part of AFAM Capital, Inc., since 1987. Mr. Buckingham graduated magna cum laude with a B.S. degree in computer science and a minor in business administration from the University of Southern California in 1987.

### Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this Item.

### Other Business Activities

Mr. Buckingham writes for and edits *The Prudent Speculator* investment newsletter, which is produced and owned by AFAM.

### Additional Compensation

No information is applicable to this Item.

### Supervision

Like all AFAM employees, Mr. Buckingham is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Cynthia Mendoza, AFAM's Chief Compliance Officer (512.354.7044). Ms. Mendoza is responsible for supervision of all AFAM individuals providing investment advice to clients. AFAM's Code of Ethics is available upon request. Mr. Buckingham reports to the firm's Board of Directors.

# Jason Clark

## Al Frank Asset Management

30 Enterprise, Suite 210, Aliso Viejo, CA 92656  
949.499.3215

a division of

## AFAM Capital, Inc.

221 West 6<sup>th</sup> Street, 5<sup>th</sup> Floor, Austin, TX 78701  
512.354.7041

May 18, 2018

**This Brochure Supplement provides information about Jason Clark that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Cynthia Mendoza, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.**

### **Educational Background and Business Experience**

Jason Clark, CFA<sup>®\*</sup>, Senior Portfolio Manager, Vice President, has been with AFAM since February 2007. After serving in the United States Navy, Mr. Clark graduated summa cum laude with a B.A. degree in finance from the University of West Florida in 2001. His professional background includes Associate Securities Research Analyst with A.G. Edwards, Inc. from 2005 to 2006 and Corporate Bond Trader and Fixed Income Specialist with Edward D. Jones and Company, LLC from 2002 to 2005.

\*CFA<sup>®</sup> - Chartered Financial Analyst, minimum qualifications include either an undergraduate degree and four years of professional experience involving investment decision-making, or four years of qualified work experience (full time, but not necessarily investment related); completion of a self-study program (250 hours of study for each of the three levels); and three course exams. For more information on the CFA<sup>®</sup> designation, please visit <https://www.cfainstitute.org/>.

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

### **Other Business Activities**

No information is applicable to this item.

### **Additional Compensation**

No information is applicable to this item.

### **Supervision**

Like all AFAM employees, Mr. Clark is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Cynthia Mendoza, AFAM's Chief Compliance Officer (512.354.7044). Ms. Mendoza is responsible for supervision of all AFAM individuals providing investment advice to clients. AFAM's Code of Ethics is available upon request. Mr. Clark reports to John Buckingham, Chief Investment Officer (949.715.3249).

# Chris Creed

## Al Frank Asset Management

30 Enterprise, Suite 210, Aliso Viejo, CA 92656  
949.499.3215

a division of

## AFAM Capital, Inc.

221 West 6<sup>th</sup> Street, 5<sup>th</sup> Floor, Austin, TX 78701  
512.354.7041

May 18, 2018

**This Brochure Supplement provides information about Chris Creed that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Cynthia Mendoza, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.**

### Educational Background and Business Experience

Chris Creed, CFP®\*, Vice President, Private Client Business Director, joined AFAM in July 2013. Before joining AFAM, he was with Fisher Investments PCG, where he was Regional Vice President for Louisiana and Mississippi. Until 2006, he was the owner of an independent wealth management practice, Creed Capital Management, through Wachovia Securities Financial Network. From 1994 to 2003, Mr. Creed was an investment representative with Edward Jones. He holds a B.A. in Marketing from Southeastern Louisiana University.

\*CFP® and Certified Financial Planner are certification marks owned by the Certified Financial Planner Board of Standards, Inc. These marks are awarded to individuals who successfully complete the CFP Board's initial and ongoing certification requirements. For more information on the CFP® designation, please visit <http://www.cfp.net/>.

### Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

### Other Business Activities

No information is applicable to this item.

### Additional Compensation

No information is applicable to this item.

### Supervision

Like all AFAM employees, Mr. Creed is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Cynthia Mendoza, AFAM's Chief Compliance Officer (512.354.7044). Ms. Mendoza is responsible for supervision of all AFAM individuals providing investment advice to clients. AFAM's Code of Ethics is available upon request. Mr. Creed reports to AFAM President Eric Hare (512.354.7041).

# Eric Hare

## AFAM Capital, Inc.

221 West 6<sup>th</sup> Street, 5<sup>th</sup> Floor, Austin, TX 78701  
512.354.7041

May 18, 2018

**This Brochure Supplement provides information about Eric Hare that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Cynthia Mendoza, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.**

### **Educational Background and Business Experience**

Eric Hare, President, has been with AFAM since 2007. Mr. Hare received his B.A. degree from Bemidji State University in 2007 with a major in political science. During his tenure with the firm, he has held a number of roles in both the investments and operations sides of the business and most recently was Chief Operating Officer.

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

### **Other Business Activities**

No information is applicable to this item.

### **Additional Compensation**

No information is applicable to this item.

### **Supervision**

Like all AFAM employees, Mr. Hare is an Access Person of the Firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual – both of which are administered and overseen by Cynthia Mendoza, AFAM's Chief Compliance Officer (512.354.7044). Ms. Mendoza is responsible for supervision of all AFAM individuals providing investment advice to clients. Mr. Hare reports to the firm's Board of Directors.

# Cynthia Mendoza

## AFAM Capital, Inc.

221 West 6<sup>th</sup> Street, 5<sup>th</sup> Floor, Austin, TX 78701  
512.354.7041

May 18, 2018

**This Brochure Supplement provides information about Cynthia Mendoza that supplements AFAM Capital, Inc.'s Brochure. You should have received a copy of that Brochure. Please contact Cynthia Mendoza, Chief Compliance Officer, if you did not receive AFAM Capital's Brochure or if you have any questions about the contents of this supplement.**

### **Educational Background and Business Experience**

Cynthia Mendoza, Vice President, Operations and Chief Compliance Officer, has been with AFAM since July 2012. Ms. Mendoza has been in the financial services industry since 2003. Her previous work experience includes: Portfolio Management assistant at South Texas Money Management from 2003 to 2010 and Analyst at Teacher Retirement System of Texas from 2010 to 2012. Ms. Mendoza has held several positions within AFAM Capital since 2012; most recently, Vice President of Operations at AFAM Capital, where she is currently responsible for client services, database reporting, vendor management, and trading operations. Ms. Mendoza earned a Bachelor of Business Administration in Corporate Finance from St. Mary's University and a Master in Business Administration from St. Edward's University.

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

### **Other Business Activities**

No information is applicable to this item.

### **Additional Compensation**

No information is applicable to this item.

### **Supervision**

Like all AFAM employees, Ms. Mendoza is an Access Person of the firm and as such, is subject to AFAM's Code of Ethics and the provisions of AFAM's Compliance and Supervision Manual. AFAM's Code of Ethics is available upon request. Ms. Mendoza reports to Eric Hare, AFAM President (512.354.7041).

## Privacy Policy

**Protecting your privacy is important to us at AFAM Capital.** We take precautions to ensure that your information is kept safe and remains private. To assist us in providing you the quality services and products that you request or to help meet your needs, we gather, maintain, and use both public and nonpublic personal information about you. We are providing you with the following statement describing our policies and practices with respect to sharing of customer information.

Facts	What does AFAM do with your personal information?	
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information.	
What?	<p>We collect nonpublic personal information about you from the following sources:</p> <ul style="list-style-type: none"> <li>• Information we receive from you on applications and other forms</li> <li>• Information about your transactions with us, our affiliates, or others</li> <li>• Information you give us verbally</li> </ul> <p>“Nonpublic personal information” means personally identifiable financial and other related information that is not available from public sources. If your customer relationship with us terminates, or if you become an inactive customer, our privacy policy will continue to apply to you.</p>	
How?	All financial companies need to share customers’ personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers’ personal information; the reasons AFAM chooses to share; and whether you can limit this sharing.	
Reasons we can share your personal information	Does AFAM share?	Can you limit this sharing?
For our everyday business purposes <i>Such as process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus</i>	Yes	No
For our marketing purposes <i>To offer our products and services to you</i>	Yes	No
For joint marketing with other financial companies	No	No
For our affiliates’ everyday business purposes <i>Information about your transactions and experiences</i>	Yes	No
For our affiliates’ everyday business purposes <i>Information about your creditworthiness</i>	No	Yes
For affiliates to market to you	Yes	Yes
For non-affiliates to market to you	Yes	Yes
Questions or need more information?		
Go to <a href="http://www.afamcapital.com">www.afamcapital.com</a> or call 888.994.6827		
Who we are		
Who is providing this notice?	AFAM Capital, Inc. and its affiliates	

What We Do	
How do AFAM and Innealta Capital protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.  We train our employees in the proper handling of personal information and oversee the same. We require companies that help provide our services to you to protect the confidentiality of personal information they receive.
How do AFAM and Innealta Capital collect my personal information?	We collect your personal information, for example, when you: <ul style="list-style-type: none"> <li>• Open an account</li> <li>• Seek advice about your investments</li> <li>• Enter into an investment advisory agreement</li> <li>• Tell us about your investment or retirement portfolio</li> </ul> We also collect your personal information from others such as credit bureaus, affiliates, or other companies.
Information collected from our websites	Websites maintained by our firm or our service providers may use a variety of technologies to collect information that help us understand how the websites are used. Information collected from your web browser (including small files stored on your device that are commonly referred to as "cookies") allow the websites to recognize your browser and help to personalize and improve your experience. In addition, our firm or our service providers may use third parties to place advertisements for our firm on other websites. Such third parties may collect anonymous information through the use of cookies or action tags (such as web beacons). The information collected is generally limited to technical and web navigation information, such as your IP address, web pages visited and browser type, and does not include personally identifiable information.
Why can't I limit all sharing?	Federal law gives you the right to limit only: <ul style="list-style-type: none"> <li>• Sharing for affiliates' everyday business purposes – information about your creditworthiness.</li> <li>• Affiliates from using your information to market to you.</li> <li>• Sharing for non-affiliates to market to you.</li> </ul> State laws and individual companies may give you additional rights to limit sharing. [See below for more on your rights under state law.]
Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies.  <i>AFAM Capital, Inc. has two money management divisions: Innealta Capital and Al Frank Asset Management. We also edit The Prudent Speculator investment newsletter and act as the Advisor to certain proprietary no-load mutual funds.</i>
Non-Affiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies.
Joint Marketing	A formal agreement between non-affiliated financial companies that together market financial products or services to you.
Other Important Information	
Information for California Customers: You have the right to control whether we share some of your personal information. You have the following rights to restrict the sharing of personal and financial information with our affiliates and outside companies that we do business with. Unless you say "no", we may share personal and financial information about you with our affiliated companies and with outside companies we may contract with to provide financial products and services to you.	