

# Heritage Capital, LLC

## Brochure

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**This Brochure provides information about the qualifications and business practices of Heritage Capital, LLC. If you have any questions about the contents of this Brochure, please contact us at (203) 389-3553 or [paul@investfortomorrow.com](mailto:paul@investfortomorrow.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Heritage Capital, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Heritage Capital, LLC as a "registered investment adviser" or any reference to being "registered" does not imply a certain level of skill or training.**

## Item 2      Material Changes

There have been no material changes made to Heritage Capital, LLC's disclosure statement since last year's Annual Amendment filing on February 20, 2019.

### Item 3 Table of Contents

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

## Item 4            **Advisory Business**

- A. Heritage Capital, LLC (“Heritage Capital”) is a limited liability company formed on June 12, 2003 in the state of Connecticut. Heritage Capital became registered as an Investment Adviser Firm in July 2003. Heritage Capital is owned by Paul B. Schatz. Mr. Schatz is Heritage Capital’s Principal and Chief Compliance Officer.
- B. As discussed below, Heritage Capital offers to its clients (individuals, 401Ks and profit sharing plans, business entities, trusts, estates and charitable organizations, etc.) investment advisory services, financial planning and consulting services, and/or retirement consulting services.

### **INVESTMENT ADVISORY SERVICES**

The client can engage Heritage Capital to provide discretionary investment advisory services on a *fee* basis. Heritage Capital’s annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under Heritage Capital’s management. Prior to engaging Heritage Capital to provide investment advisory services, clients are required to enter into an *Investment Advisory Agreement* with Heritage Capital setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the fee that is due from the client.

Heritage Capital provides investment advisory services specific to the needs of each client. Before providing investment advisory services, an investment adviser representative will ascertain each client’s investment objectives. Thereafter, Heritage Capital will allocate and/or recommend that the client allocate investment assets consistent with the designated investment objectives. Heritage Capital primarily recommends client investment asset allocation among various mutual funds, exchange traded funds, and/or investment subdivisions of variable annuity investment products, in accordance with Heritage Capital’s proprietary asset management programs, whereby Heritage Capital shall exchange and/or transfer funds owned by the client among different asset categories within the same (or different) fund family(ies), on a discretionary basis, in accordance with the investment objective(s) of the client.

### **FINANCIAL PLANNING AND CONSULTING**

To the extent requested by a client, Heritage Capital may determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fee basis. If requested by the client, Heritage Capital may recommend the services of other professionals for implementation purposes, including Heritage Capital’s representative in his individual capacity as a licensed insurance agent (This presents a conflict of interest. Please see disclosure at Item 10C). The client always has the right to decide whether to act upon the recommendation of Heritage Capital. Should the client decide to accept Heritage Capital’s recommendation, the client may choose any professional to execute that recommendation. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Heritage Capital.

**Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. However, federal and state securities laws impose liabilities under certain circumstances on persons who act in good faith and, therefore, the client is not waiving any rights they may have under federal and state securities laws in this respect.

**Please Also Note:** It remains the client's responsibility to promptly notify Heritage Capital if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Heritage Capital's previous recommendations and/or services.

## **RETIREMENT CONSULTING**

Heritage Capital also provides non-discretionary pension consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, Heritage Capital shall also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The terms and conditions of the engagement shall generally be set forth in a *Retirement Plan Consulting Agreement* between Heritage Capital and the plan sponsor.

## **MISCELLANEOUS**

**Sub-Advisory Arrangements.** Heritage Capital may act as a sub-advisor to other investment advisers. In addition, Heritage Capital may engage sub-advisors for the purpose of assisting Heritage Capital with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by Heritage Capital. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by Heritage Capital. Heritage Capital shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services. Heritage Capital's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions concerning Heritage Capital's sub-advisory arrangements.

**Please Note: Cash Positions.** At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), Heritage Capital **may** maintain cash positions for defensive purposes. All cash positions (money markets, etc) shall be included as part of assets under management for purposes of calculating Heritage Capital's advisory fee. **Heritage Capital's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above fee billing practice.**

**Paladin / WiserAdvisor.** Heritage Capital's Principal, Paul B. Schatz, is a member of the Paladin / WiserAdvisor ([www.paladinregistry.com](http://www.paladinregistry.com)). Mr. Schatz pays fixed monthly dues for Paladin's services. Paladin uses the dues to provide four free services to investors: pre-screen advisors, rate the quality of advisors, produce documentation for advisors' credentials, ethics, and business practices, and educate investors about investment advisors. Paladin also matches Mr. Schatz to investors who use its Self Search and Custom Search services.

**Numetrix / Investment Company Research Services.** Heritage Capital's President, Paul Schatz, maintains an ownership interest through a separate LLP in Numetrix Capital LLP ("Numetrix"), which provides research and related services to certain investment companies and/or registered investment advisers.

**Client Obligations.** In performing its services, Heritage Capital shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify Heritage Capital if there is ever any change in

his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Heritage Capital's previous recommendations and/or services.

**Disclosure Statement.** A copy of Heritage Capital's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement or Retirement Plan Consulting Agreement*.

**Please Note: Inverse/Enhanced Market Strategies.** Heritage Capital may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of more than 1 times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. Enhanced or leveraged strategies come with additional and significant risk as losses are magnified by the amount of leverage. Additionally, most enhanced mutual funds and ETFs are not designed to be held long-term as the daily compounding factor can have a detrimental impact on the owner for the shares. There can be **no assurance** that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct Heritage Capital, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Heritage Capital shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, Heritage Capital shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at any time, impose reasonable restrictions, in writing, on Heritage Capital's services.
- D. Heritage Capital does not participate in a wrap fee program.
- E. As of January 1, 2020, Heritage Capital had \$75,994,457 in assets under management on a discretionary basis and \$10,756,407 in assets under management on a non-discretionary basis.

## **Item 5 Fees and Compensation**

- A. The client can determine to engage Heritage Capital to provide discretionary investment advisory services on a *fee* basis.

### **INVESTMENT ADVISORY SERVICES**

If a client determines to engage Heritage Capital to provide discretionary investment advisory services on a *fee* basis, Heritage Capital's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under Heritage Capital's management (between negotiable and 2.00%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Up to \$1,000,000	2.00%
Over \$1,000,000	Negotiable

- B. Clients may elect to have Heritage Capital's advisory fees deducted from their custodial account. Both Heritage Capital's *Investment Advisory Agreement* and the custodial/

clearing agreement may authorize the custodian to debit the account for the amount of Heritage Capital's investment advisory fee and to directly remit that management fee to Heritage Capital in compliance with regulatory procedures. In the limited event that Heritage Capital bills the client directly, payment is due upon receipt of Heritage Capital's invoice. Heritage Capital shall deduct fees and/or bill clients quarterly in arrears, based upon the market value of the assets on the last business day of the previous quarter.

- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, Heritage Capital shall generally recommend that Ceros Financial Services ("Ceros") and National Financial Services LLC ("NFS") or the specific mutual fund or insurance company that issued the mutual fund or variable life/annuity product serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Ceros and NFS* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Heritage Capital's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). (See Item 12 below, for more information about Heritage Capital's recommendation of Brokers)
- D. Heritage Capital's annual investment advisory fee shall be prorated and paid quarterly, in arrears, based upon the market value of the assets on the last business day of the previous quarter. The *Investment Advisory Agreement* between Heritage Capital and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, a pro-rated portion of the earned but unpaid advisory fee shall be due.
- E. Heritage, in its sole discretion, may waive its account minimum, charge a lesser investment advisory fee and/or charge a flat fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, competition, negotiations with client, etc.). **Please Note:** As result of the above, similarly situated clients could pay different fees. In addition, similar advisory services may be available from other investment advisers for similar or lower fees. **ANY QUESTIONS:** The Heritage's Chief Compliance Officer, Paul Schatz, remains available to address any questions that a client or prospective client may have regarding advisory fees.
- F. Neither Heritage Capital, nor its representatives, accepts compensation from the sale of securities or other investment products.

## **Item 6 Performance-Based Fees and Side-by-Side Management**

Neither Heritage Capital nor any supervised person of Heritage Capital accepts performance-based fees.

## **Item 7 Types of Clients**

Heritage Capital's clients shall generally include individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations. Heritage Capital generally requires a \$250,000 minimum asset level for investment advisory services.

Heritage Capital, in its sole discretion, may reduce its investment management fee and/or reduce or waive its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. Heritage Capital may utilize the following methods of security analysis:
- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)
  - Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)
  - Cyclical – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

Heritage Capital may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Short Sales (contracted sale of borrowed securities with an obligation to make the lender whole)

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Heritage Capital) will be profitable or equal any specific performance level(s). Investing in securities involves risk of loss that clients should be prepared to bear.

- B. Heritage Capital's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis Heritage Capital must have access to current/new market information. Heritage Capital has no control over the dissemination rate of market information; therefore, unbeknownst to Heritage Capital, certain analyses may be compiled with outdated market information, severely limiting the value of Heritage Capital's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

Heritage Capital's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs and thereby reduce returns when compared to a longer-term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short-term investment strategy and substantially higher transaction costs than a longer-term investment strategy.

In addition to the fundamental investment strategies discussed above, Heritage Capital may also implement and/or recommend short selling, a strategy that has a high level of inherent risk. (See discussion below).

Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third-party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third-party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

- C. Currently, Heritage Capital primarily allocates client investment assets among various mutual funds, exchange traded funds, and/or investment subdivisions of variable annuity investment products, in accordance with Heritage Capital's proprietary asset management programs, whereby Heritage Capital shall exchange and/or transfer funds owned by the client among different asset categories within the same (or different) fund family(ies), on a discretionary basis, in accordance with the investment objective(s) of the client.
- Exchange Traded Fund Risk. ETFs are marketable securities that are designed to track, before fees and expenses, the performance or returns of a relevant index, commodity, bonds or basket of assets, like an index fund. Unlike mutual funds, ETFs trade like common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold. In addition to the general risks of investing, there are specific risks to consider with respect to an investment in ETFs, including, but not limited to: (i) an ETF's shares may trade at a market price that is above or below its net asset value; (ii) the ETF may employ an investment strategy that utilizes high leverage ratios; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally.

Heritage Capital generally allocates the investment management assets of its client accounts, on a discretionary basis, among one or more of its proprietary asset management programs. Certain of Heritage Capital's proprietary programs have been designed to comply with the requirements of Rule 3a-4 of the Investment Company Act of 1940. Rule 3a-4 provides similarly managed investment programs, with a non-exclusive safe harbor from the definition of an investment company. In accordance with Rule 3a-4, the following disclosure is specifically applicable to Heritage Capital's management of client assets:

1. **Initial Interview** – at the opening of the account, Heritage Capital, through its designated representatives, shall obtain from the client information sufficient to determine the client's financial situation and investment objectives;
2. **Individual Treatment** – the client's account is managed on the basis of the client's financial situation and investment objectives;
3. **Quarterly Notice** – at least quarterly Heritage Capital shall notify the client to advise Heritage Capital whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of his/her/its account;
4. **Annual Contact** – at least annually, Heritage Capital shall contact the client to determine whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of his/her/its account.



5. **Consultation Available** – Heritage Capital shall be reasonably available to consult with the client relative to the status of the client’s account;
6. **Quarterly Statement** – the client shall be provided with a quarterly report for the account for the preceding period;
7. **Ability to Impose Restrictions** – the client shall have the ability to impose reasonable restrictions on the management of the account, including the ability to instruct Heritage Capital not to purchase certain mutual funds;
8. **No Pooling** – the client’s beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the client’s account;
9. **Separate Account** - a separate account is maintained for the client with the Custodian; and
10. **Ownership** – each client retains indicia of ownership of the account (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

Heritage Capital’s annual investment management fee may be higher or lower than that charged by other investment advisers offering similar services/programs. Heritage Capital’s investment programs may involve above-average portfolio turnover which could negatively impact upon the net after-tax gain experienced by an individual client in a taxable account.

## **Investment Management Philosophy**

Heritage Capital's investment management philosophy is focused on capital preservation as well as appreciation through the use of strict risk management strategies designed to protect client assets in certain situations while growing them in others.

Heritage Capital's active investment management strategy seeks to reposition assets as the financial markets change, rather than buy and hold, which exposes assets to undue vulnerability and volatility.

### **I. High Yield Bond Program**

Heritage Capital's High Yield Bond Program employs an intermediate-term momentum model that buys and sells appropriate high yield and floating rate bond mutual funds. Our goal is to participate in the high yield bond market with lower risk and less exposure to interest rates. Strict stop loss protection is a key element of this strategy to keep drawdowns at a minimum. The High Yield Bond Program offers capital appreciation, capital preservation and dividends without the typical bond risk from rising interest rates.

### **II. High Yield Bond Plus Program**

Heritage Capital's High Yield Bond Plus Program employs a short-term momentum model that buys and sells appropriate high yield bond exchange traded funds. Our goal is to participate in the high yield bond market with lower risk and less exposure to interest rates. Strict stop loss protection is a key element of this strategy to keep drawdowns on the modest side. The High Yield Bond Plus Program offers capital appreciation, capital preservation and dividends without the typical bond risk from rising interest rates.

### **III. Emerging Markets Bond Program**

Heritage Capital's Emerging Markets Bond Program employs a short-term momentum model that buys and sells appropriate emerging markets / sovereign debt exchange traded funds. Our goal is to participate in the emerging markets bond market with lower risk and less exposure to interest rates and currency exchange rates. Strict stop loss protection is a key element of this strategy to keep drawdowns on the modest side. The Emerging Markets Bond Program offers capital appreciation, capital preservation and dividends without the typical bond risk from rising interest rates and fluctuating currency exchange rates.

#### **IV. Short-Term Gold Equities Program**

Heritage Capital's Short-Term Gold Equities Program is a concentrated, risk managed sector program designed to participate in the short and intermediate-term rallies in the PHLX Gold/Silver Index (XAU) using the Gold Miners ETF, Rydex Precious Metals Fund and similar gold related instruments. When short and intermediate-term price declines occur, our objective is to position client assets in the safety of money market funds. Capital preservation and appreciation have similar weights in this actively managed strategy, but volatility and drawdowns are significantly below historical levels through the use of tight and stringent stop losses on all positions.

This program is non-correlated to the U.S. stock market. Through its focus on short and intermediate-term moves, it has the potential to produce gains regardless of the longer-term market direction for precious metals mining companies.

#### **V. Best of Bonds Program**

Heritage Capital's Best of Bonds Program employs short-term and intermediate-term momentum models to indicate which fixed income sector has the better likelihood of rising between high yield bonds (risk on) and treasury bonds (risk off). It then buys and sells appropriate high yield and long-term Treasury bond exchange traded funds. When neither sector offers a positive risk/reward ratio, the portfolio will be invested in short-term cash equivalents.

Our goal is to participate in the bond market sector that offers the best risk/reward ratio with lower risk and less exposure to interest rates. Stop loss protection is a key element of this strategy to keep drawdowns on the moderate side. The Best of Bonds Program offers capital appreciation, capital preservation and dividends without the typical bond risk from rising interest rates.

#### **VI. Strategic Active Asset Allocation Program**

Heritage Capital's Strategic Active Asset Allocation Program first begins with a periodically updated allocation between equities and fixed income. From there actively managed exchange traded funds and mutual funds that have internal capital protection strategies are chosen from a small pool. The Strategic Active Asset Allocation Program offers capital appreciation and dividends and seeks to keep drawdowns well below the popular indices.

#### **VII. Global Active Asset Allocation Program**

Heritage Capital's Global Active Asset Allocation is based on the time-tested and highly successful Yale endowment model. This top down, actively managed, quantitative strategy offers diversified exposure to the global financial system across multiple asset classes. Using index based mutual funds and exchange traded funds (ETFs), the world is broken down into U.S. equities, international equities, fixed income, commodities, currencies and real estate for weekly portfolio rebalances.

This long only strategy seeks to offer competitive returns to the traditional 60/40 equities to fixed income blend with lower volatility and drawdowns from the use of non-emotional, diligently researched, multi factor alpha signals and strict position limits. With low correlation to the U.S. stock market, capital preservation outweighs appreciation and dividend income is also a benefit.

#### **VIII. Dividend Income & Growth**

Heritage Capital's Dividend Income & Growth Program begins with a 60% core holding in lower volatility dividend paying exchange traded funds (ETFs), usually in equities. As stock market conditions dictate, additional dividend paying ETFs may be added that hold equities, convertible bonds, preferred stocks, master limited partnerships (MLPs) and other dividend paying securities.

When the stock market climate indicates higher than normal risk, the core holdings can be hedged with ETFs and mutual funds that profit when a given index declines. Additionally, in extreme cases of risk, the hedge may be in the form of leveraged, inverse ETFs and mutual funds, which profit when a given index declines and sets the portfolio to have negative exposure to the stock market (short position).

The Dividend Income & Growth Program offers capital appreciation, a steady stream of dividend income with less of a focus on capital preservation.

#### **IX. Diversified Growth Program**

Heritage Capital's Diversified Growth is a top down, risk managed index strategy with the ability to take long, short and neutral positions in the Dow Jones Industrials, S&P 500, S&P 400, Russell 2000 and NASDAQ 100 as expressed by exchange traded funds or index mutual funds that track the various indices. Two distinct and independent models are used in this strategy; one that focuses on the long-term, while the other looks at the intermediate-term. Both models have trend following as well as mean reversion rules to account for the different market environments.

The Diversified Growth Program focuses primarily on capital appreciation with capital preservation coming on an opportunistic basis.

#### **X. Relative Strength Sector Program**

Heritage Capital's Relative Strength Sector Program employs a proprietary computer model to select one to four top performing U.S. market sectors, including cash, that indicators predict offer the highest potential reward over the intermediate-term. This actively managed strategy is then implemented using exchange traded sector funds and the Rydex sector funds as well as sector funds within variable annuities from Jefferson National and Nationwide's MarketFlex.

Positions are modified and rebalanced as often as weekly to meet our goal of investing assets in the top performing sectors. Although this is a trend-following strategy, the risk management component uses mean reversion, looking at the overall market, and begins to impact investment decisions when any two of our three market models go negative.

The Relative Strength Sector Program focuses primarily on capital appreciation unless our stock market models call for preservation to be blended in.

#### **XI. Spectrum Program**

Heritage Capital's Spectrum Program uses two proprietary models to allocate among our 14 other programs. On the first trading day of every month, these models select one or two programs with the lowest probability to decline until the next allocation the following month. Although any of the other programs may be chosen, the program must be considered aggressive since four aggressive programs are in the universe.

From month to month The Spectrum Program can offer, capital appreciation, capital preservation and dividends.

## **XII. Emerging Markets Program**

Heritage Capital's Emerging Markets Program employs a proprietary momentum computer model that chooses from a universe of emerging market country exchange traded funds (ETFs), which include Brazil, China, Hong Kong, India, Mexico and Russia for a weekly rebalance that results in one to three top performing markets which offer the highest potential reward. Trend following and mean reversion indicators play key roles in trading decisions.

The Emerging Markets Program focuses primarily on aggressive growth although capital preservation has a role when the overall emerging markets complex is confirmed to be in a bear market.

## **XIII. Aggressive Gold Equities Program**

Heritage Capital's Aggressive Gold Equities Program is a long and cash, classic mean reversion based strategy that utilizes the Rydex Precious Metals Fund and similar exchange traded funds (ETFs) to express its view. Designed to participate in the intermediate-term rallies in the PHLX Gold/Silver Index (XAU), this concentrated program seeks to buy weakness and sell strength using various conventional technical indicators in a proprietary fashion. Trades last as little as a week to a few months depending on market conditions. Research has shown that the most profitable trades tend to lean towards the shorter term, while the largest drawdowns usually involve longer holding periods.

The Aggressive Gold Equities Program focuses on aggressive growth with moderate correlation to the price of gold and the gold & silver mining stocks. It is non-correlated to the U.S. stock market.

## **XIV. S&P 500 Aggressive Growth Program**

Heritage Capital's S&P 500 Aggressive Growth Program is a very aggressive, leveraged long, short and cash strategy designed to produce positive returns regardless of market conditions over a 3-5 year period while significantly reducing overall stock market exposure.

First, the strategy determines the overall, long-term trend of the S&P 500. Intermediate trend is then analyzed to determine periods of agreement with the long-term trend, in which case, trading opportunities will exist when the short-term trend moves against the intermediate and long-term trends. If the intermediate trend is not in agreement with the long-term trend, the model will remain in cash equivalents like money market funds.

The S&P 500 Aggressive Growth Program uses two beta (leveraged) mutual funds and/or ETFs to express our view and achieve the very aggressive nature of the program. Because of the leverage, drawdowns may be large and significant. This strategy is not correlated to the U.S. stock market.

## **XV. Aggressive Growth Program**

Heritage Capital's Aggressive Growth Program is a very aggressive, leveraged long, short and cash strategy designed to produce positive returns regardless of market conditions over a 3-5 year period. The strategy has four proprietary models analyzing momentum, sentiment, trend and seasonal factors to determine if a long or short position should be undertaken followed the position size.

The Aggressive Growth Program uses two beta (leveraged) mutual funds and/or ETFs to express our view and achieve the very aggressive nature of the program. Because of the leverage, drawdowns may be large and significant. This strategy is not correlated to the U.S. stock market.

## Item 9      **Disciplinary Information**

Heritage Capital has no reportable disciplinary information.

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

- A. Neither Heritage Capital, nor its Principal, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither Heritage Capital, nor its Principal, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. Heritage Capital does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients. **Numetrix / Investment Company Research Services.** Heritage Capital's President, Paul Schatz, maintains an ownership interest through a separate LLP in Numetrix Capital LLP ("Numetrix"), which provides research and related services to certain investment companies and/or registered investment advisers. **Licensed Insurance Agent / Conflict of Interest:** As indicated at Item 4 above, a representative of Heritage Capital, in his separate individual capacity, is a licensed insurance agent, and may provide insurance products on a commission basis. Heritage Capital **does not** receive any insurance commissions. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Heritage Capital and/or its representatives. **Please Note:** If the client engages any such recommended professional, including the Heritage Capital representative for insurance sales/services, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note-Conflict of Interest:** The recommendation by the Heritage Capital representative that a client purchase an insurance commission product presents a ***conflict of interest***, as the receipt of commissions may provide an incentive to recommend products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any insurance commission products from Heritage Capital representatives. Clients are reminded that they may purchase insurance products recommended by the Heritage Capital representative through other, non-affiliated insurance agents. **Heritage Capital's Chief Compliance Officer, Paul Schatz, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**
- D. Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. Heritage Capital maintains an investment policy relative to personal securities transactions. This investment policy is part of Heritage Capital's overall Code of Ethics, which serves to establish a standard of business conduct for all of Heritage Capital's representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

Heritage Capital also maintains and enforces policies reasonably designed to prevent the misuse of material non-public information by Heritage Capital or any person associated with Heritage Capital.

- B. Neither Heritage Capital nor any related person of Heritage Capital recommends, buys, or sells for client accounts, securities in which Heritage Capital or any related person of Heritage Capital has a material financial interest.
- C. Heritage Capital and/or representatives of Heritage Capital *may* buy or sell securities that are also recommended to clients. This practice may create a situation where Heritage Capital and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if Heritage Capital did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of Heritage Capital's clients) and other potentially abusive practices.

Heritage Capital has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of Heritage Capital's "Access Persons". Heritage Capital's securities transaction policy requires that an Access Person of Heritage Capital must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written quarterly transaction report and as well as an annual report of the Access Person's current securities holdings; provided, however that at any time that Heritage Capital has only one Access Person, he or she shall not be required to submit any securities report described above. The Chief Compliance Officer shall review each report submitted by its Access Persons to ensure that the transactions made in Access Persons' accounts do not breach Heritage Capital's fiduciary duty to its clients.

- D. Heritage Capital and/or representatives of Heritage Capital *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where Heritage Capital and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a conflict of interest. As indicated above in Item 11.C, Heritage Capital has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Heritage Capital's Access Persons. Heritage Capital ensures that transactions made in its representatives' accounts do not breach its fiduciary duty to its clients.

## **Item 12 Brokerage Practices**

- A. In the event that the client requests that Heritage Capital recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Heritage Capital to use a specific broker-dealer/custodian), Heritage Capital generally recommends that investment management accounts be maintained at *Ceros* and *NFS*. Prior to engaging Heritage Capital to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Heritage Capital setting forth the terms and conditions under which Heritage Capital shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Heritage Capital considers in recommending *Ceros and NFS* (or any other broker-dealer/custodian to clients) include historical relationship with Heritage Capital, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Heritage Capital's clients shall comply with Heritage Capital's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Heritage Capital determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. However, clients will not pay higher commissions to broker-dealers based upon Heritage Capital's receipt of free and/or discounted research, support services, or products that does not directly benefit the client. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Heritage Capital will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Heritage Capital's investment management fee. Heritage Capital's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Heritage Capital may receive from *Ceros*, *NFS* and (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist Heritage Capital to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Heritage Capital may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Heritage Capital in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist Heritage Capital in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Heritage Capital to manage and further develop its business enterprise.

Heritage Capital's clients do not pay more for investment transactions effected and/or assets maintained at *Ceros and NFS* as a result of this arrangement. There is no corresponding commitment made by Heritage Capital to *Ceros and NFS* and/or any other entity to invest any specific amount or percentage of client assets in any specific



mutual funds, securities or other investment products as a result of the above arrangement.

**Heritage Capital's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

2. Heritage Capital does not receive referrals from broker-dealers.
3. Heritage Capital *may* accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Heritage Capital will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Heritage Capital. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

**Please Note:** In the event that the client directs Heritage Capital to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Heritage Capital.

**Heritage Capital's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that Heritage Capital provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless Heritage Capital decides to purchase or sell the same securities for several clients at approximately the same time. Heritage Capital may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Heritage Capital's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Heritage Capital shall not receive any additional compensation or remuneration as a result of such aggregation.

## **Item 13      Review of Accounts**

- A. For those clients to whom Heritage Capital provides investment supervisory services, account reviews are conducted on an ongoing basis by Heritage Capital's Principal and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise Heritage Capital of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with Heritage Capital on an annual basis.

- B. Heritage Capital *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Heritage Capital may also provide a written periodic report summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, Heritage Capital may receive an indirect economic benefit from *Ceros and NFS*. Heritage Capital, without cost (and/or at a discount), may receive support services and/or products from *Ceros and NFS*.

Heritage Capital's clients do not pay more for investment transactions effected and/or assets maintained at *Ceros and NFS* as a result of this arrangement. There is no corresponding commitment made by Heritage Capital to *Ceros and NFS* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

**Heritage Capital's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

- B. If a client is introduced to Heritage Capital by either an unaffiliated or an affiliated solicitor, Heritage Capital *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Heritage Capital's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Heritage Capital by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of Heritage Capital's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between Heritage Capital and the solicitor, including the compensation to be received by the solicitor from Heritage Capital.

#### **Item 15      Custody**

Heritage Capital shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Heritage Capital may also provide a written periodic report summarizing account activity and performance.

**Please Note:** To the extent that Heritage Capital provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by Heritage Capital with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of Heritage Capital's

advisory fee calculation. Clients should carefully review statements received from the custodian.

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

The client can determine to engage Heritage Capital to provide investment advisory services on a discretionary basis. Prior to Heritage Capital assuming discretionary authority over a client's account, client shall be required to execute an *Investment Advisory Agreement* granting Heritage Capital full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage Heritage Capital on a discretionary basis may, at anytime, impose restrictions, **in writing**, on Heritage Capital's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe Heritage Capital's use of margin, etc.).

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

- A. Heritage Capital does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact Heritage Capital to discuss any questions they may have with a particular solicitation.

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

- A. Heritage Capital does not solicit fees of more than \$500, per client, six months or more in advance.
- B. Heritage Capital is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. Heritage Capital has not been the subject of a bankruptcy petition.

#### **Item 19 Requirements for State Registered Investment Advisers**

- A. Paul B. Schatz is the President of Heritage Capital, LLC. For more information about Mr. Schatz, please see the Brochure Supplement to Heritage Capital's Brochure.
- B. Heritage Capital is not engaged in any other business than as set forth in this Brochure.
- C. Neither Heritage Capital, nor its representatives, accepts performance-based fees.

- D. Neither Heritage Capital nor its representatives have been the subject of any disciplinary actions requiring disclosure in this Item 19D. You may contact the Massachusetts Securities Division to obtain a disciplinary history on the firm, or an individual.
- E. Neither Heritage Capital, nor its representatives, has any relationship or arrangement with any issuer of securities.

**ANY QUESTIONS: Heritage Capital's Chief Compliance Officer, Paul B. Schatz, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**