

# Applied Capital LLC

## Firm Brochure - Form ADV Part 2A

*This brochure provides information about the qualifications and business practices of Applied Capital LLC. If you have any questions about the contents of this brochure, please contact Bradley W. Raines, Managing Financial Advisor, at (800) 775-8124 or by email at: [brad.raines@appliedcapital.com](mailto:brad.raines@appliedcapital.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 Applied Capital LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Applied Capital LLC's CRD number is: 166175*

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*Registration does not imply a certain level of skill or training.*

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## **Item 2: Material Changes**

There are no material changes in this brochure from the last annual updating amendment of Applied Capital LLC on March 8, 2016. Material changes relate to Applied Capital LLC's policies, practices or conflicts of interests only.

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## Item 4: Advisory Business

### A. Description of the Advisory Firm

Applied Capital LLC is a Limited Liability Company organized in the state of Arkansas.

The firm was formed in January 2010, and the principal owner is Bradley W. Raines.

### B. Types of Advisory Services

Applied Capital LLC (hereinafter "AC") offers the following services to advisory clients:

#### *Investment Supervisory Services*

AC offers ongoing portfolio management services based on the individual goals, objectives, time horizon, and risk tolerance of each client. AC creates an Investment Policy Statement for each client, which outlines the client's current situation (income, tax levels, and risk tolerance levels) and then constructs a plan to aid in the selection of a portfolio that matches each client's specific situation. Investment Supervisory Services include, but are not limited to, the following:

- Investment strategy
- Asset allocation
- Risk tolerance
- Personal investment policy
- Asset selection
- Regular portfolio monitoring

AC evaluates the current investments of each client with respect to their risk tolerance levels and time horizon. AC works with clients on either a discretionary or non-discretionary basis, and if a client grants discretionary authority to AC in writing then AC will select securities and execute transactions without permission from the client prior to each transaction. Risk tolerance levels are documented in the Investment Policy Statement, which is given to each client.

#### *Services Limited to Specific Types of Investments*

AC generally limits its investments advice and/or money management to mutual funds, equities, bonds, fixed income, debt securities, ETFs, REITs, insurance products including annuities, private placements, and government securities. AC may use other securities as well to help diversify a portfolio when applicable.

### **C. Client Tailored Services and Client Imposed Restrictions**

AC offers the same suite of services to all of its clients. However, specific client financial plans and their implementation are dependent upon the client Investment Policy Statement which outlines each client's current situation (income, tax levels, and risk tolerance levels) and is used to construct a client specific plan to aid in the selection of a portfolio that matches restrictions, needs, and targets.

Clients may or may not impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs. However, if the restrictions prevent AC from properly servicing the client account, or if the restrictions would require AC to deviate from its standard suite of services, AC reserves the right to end the relationship.

### **D. Wrap Fee Programs**

A wrap fee program is an investment program where the investor pays one stated fee that includes management fees, transaction costs, fund expenses, and any other administrative fees. AC does not participate in any wrap fee programs.

### **E. Amounts Under Management**

AC has the following assets under management:

<b>Discretionary Amounts:</b>	<b>Non-discretionary Amounts:</b>	<b>Date Calculated:</b>
\$19,226,000.00	\$0.00	12/31/2015

AC has the following assets under advisement:

<b>Discretionary Amounts:</b>	<b>Non-discretionary Amounts:</b>	<b>Date Calculated:</b>
\$1,249,500.00	\$0.00	12/31/2015

## Item 5: Fees and Compensation

### A. Fee Schedule

#### *Investment Supervisory Services Fees*

Total Assets Under Management*	Annual Fee
\$0 - \$999,999	1.00%
\$1,000,000 - \$1,999,999	0.90%
\$2,000,000 - \$2,999,999	0.80%
\$3,000,000 - \$3,999,999	0.70%
\$4,000,000 - \$4,999,999	0.60%
\$5,000,000 +	0.50%

*\*AUM Fee Schedule is subject to changes to match specific client needs. AUM are directly managed assets.*

Total Assets Under Advisement**	Annual Fee
\$0 - \$999,999	0.50%
\$1,000,000 - \$1,999,999	0.45%
\$2,000,000 - \$2,999,999	0.40%
\$3,000,000 - \$3,999,999	0.35%
\$4,000,000 - \$4,999,999	0.30%
\$5,000,000 +	0.25%

*\*\*AUA Fee Schedule is 50% of AUM Fee Schedule. AUA are Held-Away assets managed through a custodian's (i.e. TIAA-CREF, Fidelity) retirement platform.*

These fees are negotiable depending upon the needs of the client and complexity of the situation, and the final fee schedule is attached as Exhibit II of the Investment Advisory Agreement. AC uses an average of the daily balance in the client's account throughout the billing period, after taking into account deposits and withdrawals, for purposes of determining the market value of the assets upon which the advisory fee is based.

Accounts under \$10,000 may include an annual fee of \$50 per account to offset the fixed expenses associated with the management of each account. This fee is billed quarterly

based on the account opening date and may be waived. AC may accept asset-based fees up to or above 3.00% annually. Such fee is in excess of the industry norm and lower fees for comparable services may be available from other sources.

Fees are paid quarterly in arrears, and clients may terminate their contracts with one day written notice. Because fees are charged in arrears, no refund policy is necessary. Clients may terminate their accounts without penalty within 5 business days of signing the advisory contract. Advisory fees are withdrawn directly from the client's accounts with client written authorization.

In cases where Advisor fees are directly deducted, Advisor is required to a.) Obtain client authorization, b.) Send a copy of the invoice to the client at the same time that the AC directs invoice to the custodian for payment, c.) Disclose that the custodian will send quarterly invoices to the client wherein Advisor fees are itemized.

## **B. Payment of Fees**

### *Payment of Investment Supervisory Fees*

Advisory fees are withdrawn directly from the client's accounts with client written authorization. Fees are paid quarterly in arrears.

Advisory fees may also be invoiced and billed directly to the client with payments due within thirty days after receipt of invoice. Clients may select the method in which they are billed.

## **C. Clients Are Responsible For Third Party Fees**

Clients are responsible for the payment of all third party fees (i.e. custodian fees, brokerage fees, mutual fund fees, transaction fees, etc.). Those fees are separate and distinct from the fees and expenses charged by AC. Please see Item 12 of this brochure regarding broker/custodian.

## **D. Prepayment of Fees**

AC collects its fees in arrears. It does not collect fees in advance.

## **E. Outside Compensation For the Sale of Securities to Clients**

Bradley W. Raines, Timothy M. Cantrell and John H. Hudson III, in their roles as licensed insurance agents, accept compensation for the sale of insurance products to AC clients.



**1. *This is a Conflict of Interest***

The supervised persons will accept compensation for the sale of insurance products or other investment products, including asset based sales charges or service fees from the sale of mutual funds to its clients. This presents a conflict of interest and gives the supervised person an incentive to recommend products based on the compensation received rather than on the client's needs. When recommending the sale of insurance products or investment products for which the supervised persons receives compensation, they will document the conflict of interest in the client file and inform the client of the conflict of interest.

**2. *Clients Have the Option to Purchase Recommended Products From Other Brokers***

Clients always have the option to purchase AC recommended products through other brokers or agents that are not affiliated with AC.

**3. *Commissions are not the Primary Source of Income for AC***

Commissions are not AC's primary source of compensation.

**4. *Advisory Fees in Addition to Commissions or Markups***

Advisory fees that are charged to clients are not reduced to offset the commissions or markups on insurance products or investment products recommended to clients.

**Item 6: Performance-Based Fees and Side-By-Side Management**

AC does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

**Item 7: Types of Clients**

AC generally provides investment advice and/or management supervisory services to the following types of clients:

- ❖ Individuals
- ❖ High-Net-Worth Individuals

***Minimum Account Size***

While there is no account minimum dictated by AC, accounts under \$10,000 may include an annual fee of \$50 to offset the fixed expenses associated with the management of each account. This fee is billed quarterly based on the account opening date. Due to this allowance, AC may

accept asset-based fees up to or above 3.00% annually. Such fee is in excess of the industry norm and lower fees for comparable services may be available from other sources.

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

### **A. Methods of Analysis and Investment Strategies**

#### *Methods of Analysis*

AC's methods of analysis include fundamental analysis.

**Fundamental analysis** involves the analysis of financial statements, the general financial health of companies, and/or the analysis of management or competitive advantages.

#### *Investment Strategies*

AC uses long term trading, short term trading and margin transactions.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

### **B. Material Risks Involved**

#### *Methods of Analysis*

**Fundamental analysis** concentrates on factors that determine a company's value and expected future earnings. This strategy would normally encourage equity purchases in stocks that are undervalued or priced below their perceived value. The risk assumed is that the market will fail to reach expectations of perceived value.

#### *Investment Strategies*

**Long term trading** is designed to capture market rates of both return and risk. Frequent trading, when done, can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

**Short term trading** generally holds greater risk and clients should be aware that there is a material risk of loss using any of those strategies.

**Margin transactions** use leverage that is borrowed from a brokerage firm as collateral. When losses occur, the value of the margin account may fall below the brokerage firm's threshold thereby triggering a margin call. This may force the account holder to either allocate more funds to the account or sell assets on a shorter time frame than desired.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

### **C. Risks of Specific Securities Utilized**

AC generally seeks investment strategies that do not involve significant or unusual risk beyond that of the general domestic and/or international equity markets. However, AC may recommend select private offerings to accredited clients.

**Private placements** carry a substantial risk as they are subject to less regulation than publicly offered securities, the market to resell these assets under applicable securities laws may be illiquid, due to restrictions, and liquidation may be taken at a substantial discount to the underlying value or result in the entire loss of the value of such assets.

**Past performance is not a guarantee of future returns. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There are no criminal or civil actions to report.

### **B. Administrative Proceedings**

There are no administrative proceedings to report.

### **C. Self-regulatory Organization (SRO) Proceedings**

There are no self-regulatory organization proceedings to report.

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

### **A. Registration as a Broker/Dealer or Broker/Dealer Representative**

Neither AC nor its representatives are registered as or have pending applications to become a broker/dealer or as representatives of a broker/dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither AC nor its representatives are registered as or have pending applications to become a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor.

### **C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

Bradley W. Raines, Timothy M. Cantrell and John H. Hudson III are licensed insurance agents. From time to time, they will offer clients advice or products from these activities. Clients should be aware that these services pay a commission and involve a conflict of interest, as commissionable products conflict with the fiduciary duties of a registered investment advisor. AC always acts in the best interest of the client; including the sale of commissionable products to advisory clients. Clients are in no way required to implement the plan through any representative of AC in such individual's capacity as an insurance agent.

### **D. Selection of Other Advisors and How This Advisor is Compensated for Those Selections**

AC does not utilize nor select third-party investment advisors. All assets are directly managed by AC.

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

### **A. Code of Ethics**

We have a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance, Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. Our Code of Ethics is available free upon request to any client or prospective client.

### **B. Recommendations Involving Material Financial Interests**

AC does not recommend that clients buy or sell any security in which a related person to AC or AC has a material financial interest.

### **C. Investing Personal Money in the Same Securities as Clients**

From time to time, representatives of AC may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of AC to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. AC will always document any

transactions that could be construed as conflicts of interest and will always transact client business before their own when similar securities are being bought or sold.

#### **D. Trading Securities At/Around the Same Time as Clients' Securities**

From time to time, representatives of AC may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of AC to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. AC will always transact client's transactions before its own when similar securities are being bought or sold.

## **Item 12: Brokerage Practices**

#### **A. Factors Used to Select Custodians and/or Broker/Dealers**

The following Custodians are recommended by AC: TD Ameritrade Institutional, a division of TD Ameritrade Inc. (CRD #7870) Member FINRA/SIPC, TIAA-CREF Individual & Institutional Services, LLC (CRD #20472), Fidelity Investments Institutional Services Company, Inc. (CRD #17507), The Vanguard Group, Inc. (CRD #105958), and Charles Schwab & Co., Inc. (CRD #5393). These are recommended on the basis of their relatively low transaction fees, access to mutual funds and ETFs and industry reputation. AC will never charge a premium or commission on transactions, beyond the actual cost imposed by Custodian.

##### **1. Research and Other Soft-Dollar Benefits**

AC receives research, products, or other services from its broker/dealer or another third-party in connection with client securities transactions ("soft dollar benefits"). There is no minimum client number or dollar number that AC must meet in order to receive free research from the custodian or broker/dealer. There is no incentive for AC to direct clients to this particular broker-dealer over other broker-dealers who offer the same services. However, because this firm does not have to produce or pay for services or products it has an incentive to choose a custodian that provides those services based on its interests rather than the clients' interests. The first consideration when recommending broker/dealers to clients is best execution. AC always acts in the best interest of the client.

##### **2. Brokerage for Client Referrals**

AC receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

##### **3. Clients Directing Which Broker/Dealer/Custodian to Use**

AC recommends the use of the custodians mentioned above in part A. When clients choose to direct brokerage, AC may be unable to achieve most favorable execution of

client transactions. This may cost clients money because without the ability to direct brokerage, AC may not be able to aggregate orders to reduce transactions costs resulting in higher brokerage commissions and less favorable prices. Not all investment advisors allow their clients to direct brokerage.

### **B. Aggregating (Block) Trading for Multiple Client Accounts**

AC maintains the ability to block trade purchases across accounts. Block trading may benefit a large group of clients by providing AC the ability to purchase larger blocks resulting in smaller transaction costs to the client. Declining to block trade can cause more expensive trades for clients.

## **Item 13: Reviews of Accounts**

### **A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews**

Client accounts are reviewed at least monthly. Bradley W. Raines, Managing Financial Advisor and Chief Compliance Officer for AC, performs periodic reviews of client accounts with regard to the client's respective investment policies and risk tolerance levels. All accounts at AC are assigned to this reviewer.

### **B. Factors That Will Trigger a Non-Periodic Review of Client Accounts**

Reviews may be triggered by material market, economic or political events, or by changes in client's financial situations (such as retirement, termination of employment, physical move, or inheritance).

### **C. Content and Frequency of Regular Reports Provided to Clients**

Each client whose assets are managed by AC will receive a statement from the custodian at least monthly with details of the client's account including assets held and asset value.

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

### **A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes)**

AC does not receive any economic benefit, directly or indirectly from any third party for advice rendered to AC clients.

## **B. Compensation to Non – Advisory Personnel for Client Referrals**

AC may compensate individuals for client referrals for a predetermined fixed fee. Clients will never incur higher fees due from a referral relationship and any referral relationship will be fully disclosed to each referred client. AC will always act in the best interest of the client.

## **Item 15: Custody**

AC, with client written authority, has limited custody of client's assets through direct fee deduction of AC's fees only. If fees are withdrawn directly from the client's account at the custodian, AC would have constructive custody over that account and must have written authorization from the client to do so. Clients will receive all account statements and billing invoices that are required in each jurisdiction, and they should carefully review those statements for accuracy.

## **Item 16: Investment Discretion**

For those client accounts where AC will have investment discretion, the client has given AC written discretionary authority over the client's accounts with respect to securities to be bought or sold and the amount of securities to be bought or sold. Details of this relationship are fully disclosed to the client before any advisory relationship has commenced. The client provides AC discretionary authority via a discretionary investment management clause in the Investment Advisory Agreement and/or a limited power of attorney clause in the contract between the client and the custodian.

## **Item 17: Voting Client Securities (Proxy Voting)**

AC will not ask for, nor accept voting authority for client securities. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

## **Item 18: Financial Information**

### **A. Balance Sheet**

AC does not require nor solicit prepayment of more than \$500 in fees per client, six months or more in advance and therefore does not need to include a balance sheet with this brochure.

**B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Neither AC nor its management have any financial conditions that is likely to reasonably impair our ability to meet contractual commitments to clients.



### **C. Bankruptcy Petitions in Previous Ten Years**

AC has not been the subject of a bankruptcy petition in the last ten years.

## **Item 19: Requirements For State Registered Advisors**

### **A. Principal Executive Officers and Management Persons; Their Formal Education and Business Background**

AC currently has only one management person/executive officer; Bradley W. Raines. Bradley W. Raines' education and business background can be found on the Supplemental ADV Part 2B form.

### **B. Other Businesses in Which This Advisory Firm or its Personnel are Engaged and Time Spent on Those (If Any)**

Bradley W. Raines' other business activities can be found on the Supplemental ADV Part 2B form.

### **C. How Performance-based Fees are Calculated and Degree of Risk to Clients**

AC does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

### **D. Material Disciplinary Disclosures for Management Persons of this Firm**

No management person at AC or AC has been involved in an arbitration claim or been found liable in a civil, self-regulatory organization, or administrative proceeding that is material to the client's evaluation of the firm or its management.

### **E. Material Relationships That Management Persons Have With Issuers of Securities (If Any)**

Neither AC, nor its management persons, has any relationship or arrangement with issuers of securities.