

Uniform Application for Investment Adviser Registration

Part II - Page 1

Name of Investment Adviser: <b>Portfolio Strategies, Inc.</b>					
Address:	(Number and Street)	(City)	(State)	(Zip Code)	Area Code: Telephone number:
	<b>1724 West Union #200</b>	<b>Tacoma</b>	<b>WA</b>	<b>98405</b>	<b>(253) 383-1676</b>

This part of Form ADV gives information about the investment adviser and its business for the use of clients. The information has not been approved or verified by any governmental authority.

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(Schedules A, B, C, D, and E are included with Part I of this Form, for the use of regulatory bodies, and are not distributed to clients.)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

1. **A. Advisory Services and Fees.** (check the applicable boxes)

For each type of service provided, state the approximate % of total advisory billings from that service. (See instructions below.)

Applicant:

<input type="checkbox"/>	(1) Provides investment supervisory services .....	_____ %
<input checked="" type="checkbox"/>	(2) Manages investment advisory accounts not involving investment supervisory services .....	<u>100</u> %
<input type="checkbox"/>	(3) Furnishes investment advice through consultations not included in either service described above .....	_____ %
<input type="checkbox"/>	(4) Issues periodicals about securities by subscription .....	_____ %
<input type="checkbox"/>	(5) Issues special reports about securities not included in any service described above .....	_____ %
<input type="checkbox"/>	(6) Issues, not as part of any service described above, any charts, graphs, formulas, or other devices which clients may use to evaluate securities .....	_____ %
<input type="checkbox"/>	(7) On more than an occasional basis, furnishes advice to clients on matters not involving securities .....	_____ %
<input type="checkbox"/>	(8) Provides a timing service .....	_____ %
<input type="checkbox"/>	(9) Furnishes advice about securities in any manner not described above .....	_____ %

(Percentages should be based on applicant's last fiscal year. If applicant has not completed its first fiscal year, provide estimates of advisory billings for that year and state that the percentages are estimates.)

B. Does applicant call any of the services it checked above financial planning or some similar term? ..... Yes  No

C. Applicant offers investment advisory services for: (check all that apply)

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> (1) A percentage of assets under management | <input type="checkbox"/> (4) Subscription fees      |
| <input type="checkbox"/> (2) Hourly charges                                     | <input checked="" type="checkbox"/> (5) Commissions |
| <input type="checkbox"/> (3) Fixed Fees (not including subscription fees)       | <input type="checkbox"/> (6) Other                  |

D. For each checked box in A above, describe on Schedule F:

- the services provided, including the name of any publication or report issued by the adviser on a subscription basis or for a fee
- applicant's basic fee schedule, how fees are charged and whether its fees are negotiable
- when compensation is payable, and if compensation is payable before service is provided, how a client may get a refund or may terminate an investment advisory contract before its expiration date

2. **Types of clients** - Applicant generally provides investment advice to: (check those that apply)

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> A. Individuals                      | <input checked="" type="checkbox"/> E. Trusts, estates, or charitable organizations                    |
| <input type="checkbox"/> B. Banks or thrift institutions                | <input checked="" type="checkbox"/> F. Corporations or business entities other than those listed above |
| <input checked="" type="checkbox"/> C. Investment companies             | <input type="checkbox"/> G. Other (describe on Schedule F)   |
| <input checked="" type="checkbox"/> D. Pension and profit sharing plans |  |

**Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).**

**3. Types of Investments.** Applicant offers advice on the following: (check those that apply)

- |  |   |
|--|---|
| <p>A. Equity securities</p> <p><input checked="" type="checkbox"/> (1) exchange-listed securities</p> <p><input checked="" type="checkbox"/> (2) securities traded over-the-counter</p> <p><input checked="" type="checkbox"/> (3) foreign issuers</p> <p><input type="checkbox"/> B. Warrants</p> <p><input type="checkbox"/> C. Corporate debt securities (other than commercial paper)</p> <p><input type="checkbox"/> D. Commercial paper</p> <p><input type="checkbox"/> E. Certificates of deposit</p> <p><input type="checkbox"/> F. Municipal securities</p> <p>G. Investment company securities:</p> <p><input checked="" type="checkbox"/> (1) variable life insurance</p> <p><input checked="" type="checkbox"/> (2) variable annuities</p> <p><input checked="" type="checkbox"/> (3) mutual fund shares</p> | <p><input type="checkbox"/> H. United States government securities</p> <p>I. Options contracts on:</p> <p><input checked="" type="checkbox"/> (1) securities</p> <p><input type="checkbox"/> (2) commodities</p> <p>J. Futures contracts on:</p> <p><input type="checkbox"/> (1) tangibles</p> <p><input type="checkbox"/> (2) intangibles</p> <p>K. Interests in partnerships investing in:</p> <p><input type="checkbox"/> (1) real estate</p> <p><input type="checkbox"/> (2) oil and gas interests</p> <p><input type="checkbox"/> (3) other (explain on Schedule F)</p> <p><input type="checkbox"/> L. Other (explain on Schedule F)</p> |
|--|---|

**4. Methods of Analysis, Sources of Information, and Investment Strategies.**

A. Applicant's security analysis methods include: (check those that apply)

- |   |  |
|---|--|
| (1) <input checked="" type="checkbox"/> Charting    | (4) <input checked="" type="checkbox"/> Cyclical           |
| (2) <input checked="" type="checkbox"/> Fundamental | (5) <input type="checkbox"/> Other (explain on Schedule F) |
| (3) <input checked="" type="checkbox"/> Technical   |  |

B. The main sources of information applicant uses include: (check those that apply)

- |   |  |
|---|--|
| (1) <input type="checkbox"/> Financial newspapers and magazines               | (5) <input type="checkbox"/> Timing services   |
| (2) <input type="checkbox"/> Inspections of corporate activities              | (6) <input type="checkbox"/> Annual reports, prospectuses, filings with the Securities and Exchange Commission |
| (3) <input checked="" type="checkbox"/> Research materials prepared by others | (7) <input type="checkbox"/> Company press releases  |
| (4) <input type="checkbox"/> Corporate rating services                        | (8) <input checked="" type="checkbox"/> Other (explain on Schedule F)  |

C. The investment strategies used to implement any investment advice given to clients include: (check those that apply)

- |   |  |
|---|--|
| (1) <input checked="" type="checkbox"/> Long term purchases (securities held at least a year) | (5) <input checked="" type="checkbox"/> Margin transactions  |
| (2) <input checked="" type="checkbox"/> Short term purchases (securities sold within a year)  | (6) <input checked="" type="checkbox"/> Option writing, including covered options, uncovered options or spreading strategies |
| (3) <input checked="" type="checkbox"/> Trading (securities sold within 30 days)              | (7) <input type="checkbox"/> Other (explain on Schedule F)   |
| (4) <input checked="" type="checkbox"/> Short sales   |  |

**Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).**

**5. Education and Business Standards.**

Are there any general standards of education or business experience that applicant requires of those involved in determining or giving investment advice to clients? .....

Yes  No

(If yes, describe these standards on Schedule F.)

**6. Education and Business Background**

For:

- each member of the investment committee or group that determines general investment advice to be given to clients, or
- if the applicant has no investment committee or group, each individual who determines general investment advice given to clients (if more than five, respond only for their supervisors)
- each principal executive officer of applicant or each person with similar status or performing similar functions.

On Schedule F, give the:

- name
- year of birth
- formal education after high school
- business background for the preceding five years

**7. Other Business Activities.** (check those that apply)

- A. Applicant is actively engaged in a business other than giving investment advice.
- B. Applicant sells products or services other than investment advice to clients.
- C. The principal business of applicant or its principal executive officers involves something other than providing investment advice.

(For each checked box describe the other activities, including the time spent on them, on Schedule F.)

**8. Other Financial Industry Activities or Affiliations.** (check those that apply)

- A. Applicant is registered (or has an application pending) as a securities broker-dealer.
- B. Applicant is registered (or has an application pending) as a futures commission merchant, commodity pool operator or commodity trading adviser.
- C. Applicant has arrangements that are material to its advisory business or its clients with a related person who is a:
  - (1) broker-dealer
  - (2) investment company
  - (3) other investment adviser
  - (4) financial planning firm
  - (5) commodity pool operator, commodity trading adviser or futures commission merchant
  - (6) banking or thrift institution
  - (7) accounting firm
  - (8) law firm
  - (9) insurance company or agency
  - (10) pension consultant
  - (11) real estate broker or dealer
  - (12) entity that creates or packages limited partnerships

(For each checked in box in C, on Schedule F identify the related person and describe the relationship and the arrangements.)

- D. Is applicant or a related person a general partner in any partnership in which clients are solicited to invest?  Yes  No

(If yes, describe on Schedule F the partnerships and what they invest in.)

**Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).**

**9. Participation or Interest in Client Transactions.**

Applicant or a related person: (check those that apply)

- A. As principal, buys securities for itself from or sells securities it owns to any client.
- B. As broker or agent effects securities transactions for compensation for any client.
- C. As broker or agent for any person other than a client effects transactions in which client securities are sold to or bought from a brokerage customer.
- D. Recommends to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest.
- E. Buys or sells for itself securities that it also recommends to clients.

(For each box checked, describe on Schedule F when the applicant or a related person engages in these transactions and what restrictions, internal procedures, or disclosures are used for conflicts of interest in those transactions.)

Describe, on Schedule F, your code of ethics, and state that you will provide a copy of your code to any client or prospective client upon request.

10. **Conditions for Managing Accounts.** Does the applicant provide investment supervisory services, manage investment advisory accounts or hold itself out as providing financial planning or some similarly termed services *and* impose a minimum dollar value of assets or other conditions for starting or maintaining an account? .....  Yes  No  
(If yes, describe on Schedule F)

11. **Review of Accounts.** If applicant provides investment supervisory services, manages investment advisory accounts, or holds itself out as providing financial planning or some similarly termed services:

A. Describe below the reviews and reviewers of the accounts. **For reviews**, include their frequency, different levels, and triggering factors. **For reviewers**, include the number of reviewers, their titles and functions, instructions they receive from applicant on performing reviews, and number of accounts assigned each.

**Program reviews are conducted on an ongoing basis by Registrant's Principals. The Registrant primarily manages accounts referred to it by unaffiliated broker-dealers and investment advisers, pursuant to which the Registrant generally pays a portion of its management fee to the referring broker-dealer or investment adviser in accordance with the parameters of SEC Rule 206(4)-3. The referring broker-dealers and investment advisers generally maintain both the initial and ongoing day-to-day relationship with the client, including initial and ongoing determination of client suitability for the Registrant's designated strategies. All investment supervisory clients (directly or through their financial services professional) are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. In performing its services, Registrant 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.**

B. Describe below the nature and frequency of regular reports to clients on their accounts.

**Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a periodic report summarizing account activity and performance.**

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

**12. Investment or Brokerage Discretion.**

- A. Does applicant or any related person have authority to determine, without obtaining specific client consent, the:
- |  |                                     |                                     |
|--|-------------------------------------|-------------------------------------|
|  | Yes                                 | No                                  |
| (1) securities to be bought or sold? .....               | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| (2) amount of the securities to be bought or sold? ..... | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| (3) broker or dealer to be used? .....                   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| (4) commission rates paid? .....                         | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |

- B. Does applicant or a related person suggest brokers to clients? ..... Yes  No

For each yes answer to A describe on Schedule F any limitations on the authority. For each yes to A(3), A(4) or B, describe on Schedule F the factors considered in selecting brokers and determining the reasonableness of their commissions. If the value of products, research and services given to the applicant or a related person is a factor, describe:

- the products, research and services
- whether clients may pay commissions higher than those obtainable from other brokers in return for those products and services
- whether research is used to service all of applicant's accounts or just those accounts paying for it; and
- any procedures the applicant used during the last fiscal year to direct client transactions to a particular broker in return for product and research services received.

**13. Additional Compensation.**

Does the applicant or a related person have any arrangements, oral or in writing, where it:

- |   |   |                             |
|---|---|-----------------------------|
| A. is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients? ..... | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| B. directly or indirectly compensates any person for client referrals? .....  | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |

(For each yes, describe the arrangements on Schedule F.)

**14. Balance Sheet.** Applicant must provide a balance sheet for the most recent fiscal year on Schedule G if applicant:

- has custody of client funds or securities (unless applicant is registered or registering only with the Securities and Exchange Commission); or
  - requires prepayment of more than \$500 in fees per client and 6 or more months in advance
- Has applicant provided a Schedule G balance sheet? ..... Yes  No

Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).

**Schedule F of  
Form ADV**

**Continuation Sheet for Form ADV Part II**

Applicant: <b>Portfolio Strategies, Inc.</b>	SEC File Number: <b>801-18475</b>	Date: <b>04/2010</b>
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(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

I Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: <b>Portfolio Strategies, Inc.</b>	IRS Empl. Ident. No.: <b>91-1194836</b>
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Item of Form (identify)	Answer
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Item ID	<p>As disclosed below, Portfolio Strategies, Inc. (the Registrant<sup>1</sup>) provides its clients (individuals, pension and profit sharing plans, trusts, estates, charitable organizations and corporations) with discretionary investment management services. Registrant <b>does not</b> provide financial planning, estate planning, insurance planning, or investment or non-investment related consulting services. The Registrant primarily manages accounts referred to it by unaffiliated broker-dealers and investment advisers, pursuant to which the Registrant generally pays a portion of its management fee to the referring broker-dealer or investment adviser in accordance with the parameters of SEC Rule 206(4)-3. <b>The referring broker-dealers and investment advisers generally maintain both the initial and ongoing day-to-day relationship with the client, including initial and ongoing determination of client suitability for the Registrant's designated strategies.</b> The Registrant does not maintain possession of client funds or securities. Accounts are primarily maintained at the custodian designated by the referring broker-dealer/investment adviser. The Registrant is an asset allocator, pursuant to which it allocates assets among mutual funds (primarily 95% of assets) and exchange traded funds in accordance with one or more of its proprietary investment strategies. The Registrant may engage unaffiliated investment managers to provide sub-advisory services and/or investment signals to assist the Registrant with the management of one or more of its investment strategies. As also disclosed below, the Registrant also manages assets as a sub-adviser to the PSI Total Return Fund, PSI Core Strength Fund and PSI Macro Trends Fund, investment companies sponsored by Direxion Funds</p>
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**INVESTMENT MANAGEMENT**

In the event the client determines to engage the Registrant to provide investment management services, Registrant shall do so on a *fee only* basis. Registrant shall generally allocate the investment management assets of its clients, on an active discretionary basis, among various mutual funds and/or investment subdivisions of variable investment products, in accordance with Registrant's proprietary asset management programs, whereby Registrant shall exchange and/or transfer funds owned by the client among different asset categories within the same (or different) fund family(ies), in accordance with the investment objective(s) of the client.

Registrant manages investment advisory accounts not involving Investment Supervisory Services. Each investment program managed by the Registrant has been devised to meet a particular investment strategy applicable to an individual client's investment objective(s). Each investment program is continuously managed based on the program's strategy, rather than based upon each client's individual needs. However, each client will have the opportunity to place reasonable restrictions on the types of investments to be held in his/her/its account.

Registrant offers investment programs using the following model portfolios: Income Plus Program, Index Plus Program, Tactical Advantage Program, Tactical Growth Program, All Seasons Program, Dynamix Program, Global Macro Program, Market Neutral Program, Multi-Edge Program, Multi-Guard Program, Price History Program, Price History Developing Markets Program, Price History Long/Short Program, Quantitative Balanced Program, Quantitative Growth Program, and the Guardian Portfolios (which contain a preset combination of PSI programs) each of which programs is more comprehensively discussed in the Registrant's program brochures which are provided to all prospective clients. Some program strategies are also available within specific variable annuities and 401 K programs obtained through various insurance companies and custodians. Due to trading restrictions and fund limitations imposed by certain custodians, some programs (Index Plus) may be substantially modified to meet these more stringent requirements, which may affect performance results. The modifications are solely a function of the custodian designated by the client, of which the client is made aware prior to participating in a particular program. These affected strategies are identified by the "II" following their name (Index Plus II).

Registrant's investment programs do not follow a buy-and-hold strategy but trade in-and-out of positions on a frequent basis (which could be two to three times a week). The strategies used by Registrant can incorporate the purchase of inverse index mutual funds and other mutual funds that invest in leveraged instruments, such as futures contracts and options on securities, both on a long and short basis. Because of this leverage, the value of an

individual program may fluctuate substantially from day to day. However, Registrant's goal in the use of these funds is to mitigate market exposure, thereby attempting to decrease overall program downside risk.

The Registrant also provides advisory services to the sponsors of "participant-directed" retirement plans established by the sponsors pursuant to Section 404(c) of ERISA. Section 404(c) permits a Plan participant to exercise control over the assets contained in his/her individual retirement account. Registrant provides the Plan sponsors with advice relative to the investment alternatives available for Plan participants to choose from. Among the investment alternatives that each plan sponsor may designate for their participants to choose from may include the above-referenced investment programs and/or unaffiliated mutual funds. In addition, if requested by the sponsor, the Registrant shall provide Plan participants with general impersonal informational seminars and/or materials which describe or explain the various investment options available to them under the Plan. Relative to the mutual fund investment management services that Portfolio Strategies (the Registrant) may provide to sponsors of retirement plans and/or its participants, the retirement plan platform provider, its related custodian, and other affiliates may receive 12b-1, shareholder service and/or administrative fees directly from the mutual fund sponsors that comprise the retirement portfolios. Portfolio Strategies (the Registrant) is not a party to any such arrangements and will not receive any portion of any such fees.

Inherent in the Net Asset Value of each mutual fund used within the PSI programs are fees charged by the mutual fund including general and administrative fees, marketing fees (also known as 12b-1 fees), and commission costs paid for executing transactions for the fund. PSI programs primarily use the Rydex and Profunds family of funds for their investments. The general, administrative and marketing fees of Rydex and Profunds mutual funds generally range from 1.5% to 2.5% of net assets in each fund. The costs are detailed in each mutual fund's prospectus as required by the Securities and Exchange Commission (SEC). Additional costs of commissions incurred by the mutual funds to buy and sell the underlying securities are explained in the Statement of Additional Information (SAI) such as Form N-1A as filed with the SEC. Please read the prospectus and SAI for each fund for a listing and description of these fees.

Registrant generally allocates the investment management assets of its client accounts, on a discretionary basis, among one or more of its proprietary asset management programs. The securities that comprise the underlying programs are primarily mutual funds and exchange traded funds. Registrant'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 Registrant's management of client assets:

1. **Initial Interview** – at the opening of the account, the Registrant, 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 the Registrant shall notify the client to advise the Registrant 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, the Registrant 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** – the Registrant 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 the Registrant 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).

Registrant'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. Registrant obtains research and/or investment signals, which are material to certain of its asset allocation programs, from other investment professionals, including registered investment advisers, who may also serve as sub-advisers for certain of Registrant's programs.

The Registrant shall charge an annual investment management fee based upon a percentage of the market value of the assets being managed by Registrant. The investment management fee charged shall vary (generally between 0.40% and 2.96%) depending upon the market value of assets under management, and the investment program selected, as follows:

**All Seasons, Market Neutral, Price History, Price History Developing Markets, Price History Long/Short, Quantitative Balanced, Quantitative Growth, Tactical Advantage and Tactical Growth Programs**

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$20,000 - \$500,000	2.50%
\$500,001 - \$1,000,000	2.25% (Total account at this percentage)
\$1,000,001 - \$1,500,000	2.00% (Total account at this percentage)
\$1,500,001 - \$2,000,000	1.75% (Total account at this percentage)
\$2,000,001 and above	1.60% (Total account at this percentage)

**Index Plus, Dynamix, Global Macro, Multi-Edge, Multi-Guard, and all Combination Programs and Guardian Portfolios (except Guardian Conservative)**

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$20,000 - \$250,000	2.96%
\$250,001 - \$500,000	2.75% (Total account at this percentage)
\$500,001 - \$1,000,000	2.50% (Total account at this percentage)
\$1,000,001 - \$1,500,000	2.25% (Total account at this percentage)
\$1,500,000 and above	2.00% (Total account at this percentage)

**Income Plus Program and Guardian Conservative Portfolio**

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$20,000 - \$500,000	1.90%
\$500,001 - \$1,000,000	1.65% (Total account at this percentage)
\$1,000,001 and above	1.40% (Total account at this percentage)

Registrant's annual investment management fee shall be pro-rated and paid quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter. Registrant, in its sole discretion, may charge a lesser management fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, historical relationship, related accounts, account composition, negotiations with client, accounts referred to adviser by another professional, etc.).

Prior to engaging Registrant to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets. The *Investment Advisory Agreement* between the Registrant 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*. Registrant's investment management fee shall be prorated through the date of termination, and any refund that may be due shall be promptly forwarded to the client.

All investment management accounts will be maintained at an independent custodian, or at the specific mutual fund or insurance company that issued the mutual fund or variable life/annuity product. In addition to the *Investment Advisory Agreement*, the client may be required to execute a separate agreement with the specific custodian, mutual fund, and/or insurance company. Both Registrant's *Investment Advisory Agreement* and custodial agreement may authorize the designated custodian to debit the account for the amount of the Registrant's management fee and to directly remit that management fee to the Registrant in accordance with required regulatory procedures.

Factors which the Registrant considers in recommending a broker-dealer and/or custodian to clients include financial strength, reputation, execution, pricing, research, historical relationship and service. Certain broker-

dealers/custodians enable Registrant to obtain many no-load mutual funds without transaction charges and other no-load and load waived funds at nominal transaction charges. The brokerage commissions and/or transaction fees charged by the broker-dealers/custodians for client accounts are exclusive of, and in addition to, Registrant's investment advisory fee. Although the commissions and/or transaction fees that may be paid by Registrant's clients shall comply with the Registrant'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 the Registrant determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. 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 broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions and/or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment advisory fee. In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, the client 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).

Certain investment opportunities that become available to Registrant's clients may be limited. For example, various mutual funds may, from time to time, limit the number of shares available for purchase by mutual fund asset allocators, such as the Registrant. In order to meet its fiduciary duties to all of its clients, the Registrant will endeavor to allocate investment opportunities among all clients on a fair and equitable basis. However, except as otherwise provided by federal or state securities laws, Registrant shall not be liable for an adverse decision by a mutual fund or insurance company to unilaterally restrict and/or prohibit asset allocation activities such as those of the Registrant.

**Affiliated Mutual Funds.** The Registrant also serves as the sub-investment manager to the PSI Total Return Fund, the PSI Core Strength Fund and the PSI Macro Trends (the "*Funds*"), investment companies (mutual funds) sponsored by The Direxion Funds. A complete description of the *Funds*, their strategies, objectives, and costs is set forth in the *Fund* prospectus, a copy of which is available from the Registrant upon request. As sub-investment manager to the *Funds*, Registrant shall have discretionary authority for the management of *Fund* assets. Pursuant to the terms of the *Investment Advisory Agreement* between the Registrant and the client, the Registrant shall have discretion to place client assets in various investments, including the *Funds*. However, the client shall not pay a "dual" fee to the Registrant (i.e., an investment management fee to the Registrant pursuant to the terms of the *Investment Advisory Agreement* between the Registrant and the client and a mutual fund investment management fee paid by the *Funds* to the Registrant which is based on the client's assets invested in the *Funds*). Rather, the *Funds* will pay the Registrant an annual subadvisory fee of .65% of assets under management. The Registrant will in turn credit each *Fund* shareholder's proportionate share of the fees that it receives from the *Funds* against the management fee charged by Registrant to Index Plus Strategy clients. Clients will receive the fee offset only during times when their assets are actually invested in the *Funds*. At other times, the full management fee will be assessed. **The Registrant's Chief Compliance Officer, David Jajewski, remains available to address any questions that a client or prospective client may have regarding the above arrangement. See disclosure below at Item 8C(2) and 9D**

#### **MISCELLANEOUS**

**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 the Registrant) will be profitable or equal any specific performance level(s).

**Non-Investment Consulting/Implementation Services.** The Registrant does not hold itself out as providing financial planning, estate planning, or insurance planning services. If requested by the client, the Registrant may provide limited advice regarding non-investment related matters. The Registrant is not an attorney, accountant or insurance agent, and no portion of the Registrant's services should be construed as same. To the extent requested by a client, the Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). 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 the Registrant.

**Please Note: Inverse/Enhanced Market Strategies.** The Registrant, the Fund, and/or the independent managers

and/or sub-advisers that may be engaged by the Registrant, may also utilize leveraged 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 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. 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 the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

**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), the Registrant maintains cash positions for defensive purposes. All cash positions (money markets, etc) shall be included as part of assets under management for purposes of calculating the Registrant's advisory fee. **The Registrant's Chief Compliance Officer, David Jajewski, remains available to address any questions that a client or prospective may have regarding the above fee billing practice.**

**Please Note: Options Transactions.** Although the intent of the options-related transactions that may be implemented by the Registrant is to produce current income and and/or to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

**Please Note: Use of Margin.** To the extent that a client authorizes the use of margin, and margin is thereafter employed by the Registrant in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to the Registrant may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential **conflict of interest** whereby the client's decision to employ margin shall correspondingly increase the management fee payable to the Registrant. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

**Commission Transactions.** In the event that the client desires, the client can engage the Registrant's principals, David Jajewski and John Williamson, in their separate individual capacities as registered representatives of Centaurus Financial Incorporated ("Centaurus") and EDI Financial Incorporated ("EDI"), SEC registered and FINRA member broker-dealers, to implement investment recommendations on a commission basis. In the event the client chooses to purchase investment products through Centaurus or EDI, the applicable broker-dealer will charge brokerage commissions to effect securities transactions, a portion of which commissions shall be remitted to either Mr. Jajewski or Mr. Williamson, as applicable. The brokerage commissions charged by Centaurus or EDI may be higher or lower than those charged by other broker-dealers. In addition, the applicable broker-dealer and representative, relative to commission mutual fund purchases, may also receive additional ongoing 12b-1 trailing commission compensation directly from the mutual fund company during the period that the client maintains the mutual fund investment. Messrs. Jajewski and Williamson's commission business activities are limited and **not material** to the Registrant's investment advisory operations. **Please Note: The recommendation that a client purchase a commission product from either Mr. Jajewski or Mr. Williamson presents a conflict of interest. No client is under any obligation to purchase any commission products from Mr. Jajewski and Mr. Williamson in their separate individual capacities as registered representative of Centaurus or EDI. The Registrant's Chief Compliance Officer, David Jajewski, remains available to address any questions that a client or prospective may have regarding the above conflict of interest.**

**Mutual Fund/Exchange Traded Fund Fees.** In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, the client will also incur, relative to all mutual fund and exchange traded funds, charges imposed at the fund level (e.g. management fees and other fund expenses).

**Client Obligations.** The Registrant primarily manages accounts referred to it by unaffiliated broker-dealers and investment advisers, pursuant to which the Registrant generally pays a portion of its management fee to the referring broker-dealer or investment adviser in accordance with the parameters of SEC Rule 206(4)-3. The referring broker-dealers and investment advisers generally maintain both the initial and ongoing day-to-day relationship with the client, including initial and ongoing determination of client suitability for the Registrant's designated strategies. All investment supervisory clients (directly or through their financial services professional)

	<p>are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation, and/or services or if they wish to impose any reasonable restrictions upon Registrant's management services. In performing its services, Registrant 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. (see disclosure at Item 13B of this Schedule F).</p> <p><b>Disclosure Statement.</b> A copy of Registrant's written disclosure statement as set forth on Part II of Form ADV shall be provided to each client prior to or contemporaneously with the execution of the <i>Investment Advisory Agreement</i>. Any client who has not received a copy of Registrant's written disclosure statement at least 48 hours prior to executing the <i>Investment Advisory Agreement</i> shall have five business days subsequent to executing the agreement to terminate the Registrant's services without penalty.</p>
Item 4B (8)	<p>Registrant obtains research and/or investment signals, which are material to certain of its asset allocation programs, from other investment professionals, including registered investment advisers. Regardless of any research and/or investment signals that may be obtained, the Registrant shall be the final determiner as to whether to follow any such research and/or signal for its investment programs. No such investment professional or investment adviser is a related person of the Registrant. At all times, all such investment professionals act in the capacity as independent consultants to the Registrant.</p>
Item 5	<p>All individuals that give investment advice on behalf of the Registrant must have earned a college degree and/or have substantive investment-related experience. In addition, all such individuals shall have attained all required investment-related licenses and/or designations.</p>
Item 6	<p><b>WILLIAM A. WHATMOUGH</b>  Born: 1942  B.S. in Mathematics from Hillsdale College, 1964.  1995-Present: Portfolio Strategies Inc., Tacoma, WA; Portfolio Manager  2006-2007: Focus Investments, Inc., Tacoma, WA; Portfolio Manager</p> <p><b>JOHN D. WILLIAMSON</b>  Born: 1967  B.S. in Business Administration from Oral Roberts University, 1990.  2009-Present: Tahoma Investment Advisors, LLC, Managing Member  2000-Present: Portfolio Strategies Inc., Director of Marketing  2001-Present, EDI Financial Inc., Financial Representative  2006-2007: Focus Investments, Inc., Officer</p> <p><b>DAVID JAJEWSKI</b>  Born: 1960  B.A in Economics from Ripon College, 1983.  2009-Present: Tahoma Investment Advisors, LLC, Member  2006-Present: Centaurus Financial; Registered Representative  2001-Present: Portfolio Strategies Inc., Managing Partner  2006-2007: Focus Investments, Inc., Officer</p>
Items 8C(3) and 8D	<p>The Registrant is under common ownership with Tahoma Investment Advisors, LLC, an SEC registered investment adviser that provides investment management services through private investment funds (Tahoma Market Neutral Fund, LP and Tahoma Absolute Return Fund, LP-the "Funds"). The Registrant's clients are not solicited to invest in either of the Tahoma private funds. Tahoma's operations are separate and distinct from those of the Registrant and <b>not material</b> to those of the Registrant. As such, the above disclosure is set forth for informational purposes.</p>
Items 7B, 8C(1) and 9B	<p><b>Registered Representatives of Centaurus and EDI Financial Incorporated.</b> Registrant's Principals, David Jajewski and John Williamson, are registered representatives of Centaurus Financial Incorporated ("Centaurus") and EDI Financial Incorporated ("EDI"), SEC Registered and FINRA member broker-dealers. As referenced in Item 1D above, clients can engage Messrs. Jajewski and Williamson, in their individual capacities, to effect securities brokerage transactions on a commission basis.</p>

Complete amended pages in full, circle amended items and file with execution page (page 1).

	<p><b><u>Please Note:</u></b> The recommendation that a client purchase a securities commission product from the Registrant's Principals, Messrs. Jajewski and Williamson, presents a <b>conflict of interest</b>. No client is under any obligation to purchase any commission products from Messrs. Jajewski and Williamson. <b><u>The Registrant's Chief Compliance Officer, David Jajewski, remains available to address any questions that a client or prospective may have regarding the above conflict of interest.</u></b></p>
<p>Items 8C(2) and 9D</p>	<p>As indicated at Item 1D of this Schedule F, the Registrant serves as the sub-investment manager to the PSI Total Return Fund, the PSI Core Strength Fund and the PSI Macro Trends (the "<i>Funds</i>"), investment companies (mutual funds) sponsored by The Direxion Funds. A complete description of the <i>Funds</i>, their strategies, objectives, and costs is set forth in the <i>Fund</i> prospectus, a copy of which is available from the Registrant upon request. As sub-investment manager to the <i>Funds</i>, Registrant shall have discretionary authority for the management of <i>Fund</i> assets. Pursuant to the terms of the <i>Investment Advisory Agreement</i> between the Registrant and the client, the Registrant shall have discretion to place client assets in various investments, including the <i>Funds</i>. However, the client shall not pay a "dual" fee to the Registrant (i.e., an investment management fee to the Registrant pursuant to the terms of the <i>Investment Advisory Agreement</i> between the Registrant and the client and a mutual fund investment management fee paid by the <i>Funds</i> to the Registrant which is based on the client's assets invested in the <i>Funds</i>). Rather, the <i>Funds</i> will pay the Registrant an annual subadvisory fee of .65% of assets under management. The Registrant will in turn credit each <i>Fund</i> shareholder's proportionate share of the fees that it receives from the <i>Funds</i> against the management fee charged by Registrant to Index Plus Strategy clients. Clients will receive the fee offset only during times when their assets are actually invested in the <i>Funds</i>. At other times, the full management fee will be assessed.</p>
<p>Item 9E</p>	<p>The Registrant has implemented an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics which serves to establish a standard of business conduct for all of Registrant's Associated Persons that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.</p> <p>In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.</p>
<p>Item 10</p>	<p>Please see the response set forth on this Schedule F to Item 1D relating to Registrant's conditions for managing accounts.</p>
<p>Items 12A and 12B</p>	<p>Please see the previous responses set forth on this Schedule F to Item 1D and 13A. In addition, in seeking best execution through a broker-dealer and/or custodian, 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 broker-dealer services, including historical relationship, reputation, financial strength, the value of research provided, execution capability, commission rates, and responsiveness.</p> <p><b><u>Execution of Brokerage Transactions (if/when applicable).</u></b> If requested, Registrant will arrange for the execution of securities brokerage transactions for the account through broker-dealers that Registrant reasonably believes will provide "best execution." In seeking "best execution," the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services including execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive commission rates, it may not necessarily obtain the lowest possible commission rates for account transactions.</p> <p>Over-the-Counter (OTC) securities transactions for Registrant's clients are generally effected on an agency basis, which involve the services of two (2) separate broker-dealers: (1) a "dealer" or "principal" acting as market-maker; and (2) the executing broker-dealer that acts in an agency capacity for the client's account. Dealers executing principal transactions typically include a mark-up/down, which is included in the offer or bid price of the securities purchased or sold. In addition to the dealer mark-up/down, the client will also incur the transaction fee imposed by the executing broker-dealer. Registrant does not receive any portion of the dealer mark-up/down or the executing broker-dealer transaction fee.</p> <p>Registrant may (but is not obligated to) combine or "batch" client orders to obtain "best execution," to negotiate more favorable commission rates or to allocate equitably among Registrant'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 Registrant's clients in</p>

proportion to the purchase and sale orders placed for each client account on any given day.

The client may direct Registrant to use a particular broker-dealer (subject to Registrant's right to decline and/or terminate the engagement) to execute some or all transactions for the client's account. In such event, the client will negotiate terms and arrangements for the account with that broker-dealer, and Registrant 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 Registrant. 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.

In the event that the client directs Registrant 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 Registrant.

**Proxy Voting Policy.** The Registrant does not vote client proxies. Therefore, although the Registrant may provide investment advisory services relative to client investment assets, the Registrant's 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. The Registrant and/or the client shall correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

See additional disclosure below at Item 13A.

Item 13A

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant may receive from *Pershing*, without cost (and/or at a discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Registrant 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 Registrant 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 the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

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

**The Registrant's Chief Compliance Officer, David Jajewski, 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.**

Item 13B

**Registrant's Business Operations:** As indicated above, the Registrant primarily manages accounts referred to it by unaffiliated broker-dealers and investment advisers, pursuant to which the Registrant generally pays a portion of its management fee to the referring broker-dealer or investment adviser in accordance with the parameters of SEC Rule 206(4)-3. **The referring broker-dealers and investment advisers generally maintain both the initial and ongoing day-to-day relationship with the client, including initial and ongoing determination of client suitability for the Registrant's designated strategies.**

**Regulatory Disclosure:** If a client is introduced to the Registrant by either an unaffiliated or an affiliated solicitor, Registrant 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 the Registrant's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to the Registrant 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 the Registrant's written disclosure statement as same is set forth on Part II of Form ADV, including this Schedule F, together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between the Registrant and the solicitor, including the compensation to be received by the solicitor from the Registrant. Any affiliated solicitor of the Registrant shall disclose the nature of his/her relationship to prospective clients at the time of the solicitation.