

## Item 1 – Cover Page

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This brochure provides information about the qualifications and business practices of Bay Capital Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at 757-963-5699. 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 Bay Capital Advisors is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view the firm's information on this website by searching for Bay Capital Advisors. You may search for information by using Bay Capital Advisors' name or by using Bay Capital Advisors' CRD number. The CRD number for Bay Capital Advisors is 140796.

\*Registration as an investment advisor does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

Recent regulatory changes amended the disclosure document we provide to clients as required by applicable rules and regulations. This Disclosure Brochure is a new document prepared according to the new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous Form ADV Part II and Schedule F did not require. In the future, this item will discuss only specific material changes that are made to the Disclosure Brochure and provide readers with a summary of such changes. We will also reference the date of the last annual update of the brochure.

In the past our firm has offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new rules, we will ensure that you receive a summary of any material changes to this and subsequent Disclosure Brochures within 120 days after our fiscal year ends. Our fiscal year ends on December 31 so you will receive the summary of material changes no later than April 30 each year. At that time we will also offer a copy of the most current Disclosure Brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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## Item 4 – Advisory Business

### **Description of Advisory Firm**

Bay Capital Advisors, LLC (referred to as “Bay Capital” throughout this document) is an investment advisor registered with the Virginia Division of Securities and Retail Franchising. Bay Capital is a limited liability company formed under the laws of the Commonwealth of Virginia.

- Bay Capital has been registered as an investment advisor since May 2006.
- Bay Capital’s controlling owner, managing member and Chief Compliance Officer is Jim Flinchum.
- Bay Capital offers personalized investment advisory services, as well as individualized financial advice, including estate planning.

### **General Description of Primary Advisory Services**

The following are brief descriptions of Bay Capital’s primary services. A detailed description of Bay Capital’s services is provided in Item 5 – Fees and Compensation so that clients and prospective clients can review the services and description of fees in a side-by-side manner.

***Portfolio Management Services.*** This is the primary service offered by Bay Capital and most clients receiving this Disclosure Brochure will be signing up for Portfolio Management Services. The service involves providing clients with continuous and on-going supervision over client accounts. This means that Bay Capital will monitor a client’s account as appropriate and make trades in client accounts when appropriate. Typically, Bay Capital will have discretion on the client’s accounts which means Bay Capital can buy and sell securities without talking to the client prior to each buy/sell decision.

***Investment Analysis and Corporate Planning Services.*** Investment Analysis Services are best described as providing specific advice regarding the portfolio or asset holdings of the client, but not implementing investment decisions or having any trading authority over account holdings. Corporate Planning Services are designed to assist businesses and corporations make cash management and refinancing decisions. These services can be combined or provided separately depending on the needs of each individual client and are less commonly provided than Portfolio Management Services.

### ***Specialization.***

Bay Capital considers itself to specialize in the following areas:

- Financial planning focusing on investment management and estate planning
- Investment Management specializing in a suitable mix of mutual fund portfolios, exchange traded funds (ETFs), equities, fixed income investments, options, and other general securities
- Investment management services focusing on fundamental analysis on a top-down basis, beginning with a macro-economic analysis

### ***Types of Investments.***

When providing Portfolio Management Services, Bay Capital typically constructs each client’s asset allocation using exchange-traded funds or institutional asset class mutual funds. When appropriate for

building a core-satellite portfolio, managed mutual funds are often used and strongly preferred for small-cap and emerging market exposure. It is not Bay Capital's typical investment strategy to attempt to time the market but may increase cash holdings modestly as deemed appropriate by the firm, based on the client's risk tolerance and the firm's expectations of market behavior. Bay Capital prefers not to select individual securities but will do so if client has a history of and a preference for such investments. Bay Capital may change its investment strategy to accommodate special situations like: low basis stock, stock options, legacy holdings, inheritances, closely held businesses, collectibles, or special tax situations.

With some exceptions, Bay Capital is willing to offer advice on most types of investments owned by a client and, at the specific request of a client, will explore investment options not currently owned by a client. However, Bay Capital does not provide advice on variable life insurance/annuities products, warrants, and futures contracts.

The following are some of the general categories of securities that Bay Capital will advise.

- Exchange-listed securities
- Securities traded over-the-counter
- Exchange Traded Funds (ETFs), including Exchange Traded Notes (ETNs)
- Foreign issues
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Mutual fund shares
- United States government securities
- Options contracts on securities
- Interests in partnerships investing in real estate, oil and gas interests
- Bay Capital may provide advice to a client regarding real estate investment trusts, real estate partnerships and other private placement investments. These types of investments are often illiquid, which means that the investments can be difficult to trade and consequently can limit a client's ability to sell the investments in a timely manner and at an advantageous price. Additionally, some investments may not have registered pursuant to the Securities Act of 1933, and therefore the client will need to complete a subscription agreement showing the client is an "accredited" investor (as defined by applicable law and rules and regulations) and acknowledge that he or she has read and understands the private placement memorandum and is aware of the various risk factors associated with such an investment.

### **Tailor Advisory Services to Individual Needs of Clients**

Bay Capital's services are always provided based on the individual needs of the individual client. Because of this, the portfolios of different client will often be very different, reflecting the individual client. Clients are given the ability to impose restrictions on their accounts including specific investment selections and sectors. We work with each client on a one-on-one basis through interviews and question-and-answer sessions to determine the client's investment objectives and suitability information.

### **Client Assets Managed by Bay Capital**

The amount of clients assets managed by Bay Capital totaled \$37,137,921 as of December 31, 2010. The entire amount is managed on a discretionary basis. See Item 16 – Investment Discretion for more information.

### **Item 5 – Fees and Compensation**

In addition to the information provided in Item 4 – Advisory Business, this section provides details regarding Bay Capital's services along with descriptions of each service's fees and compensation arrangements.

Bay Capital provides investment advisory services utilizing asset allocation strategies designed to meet each client's objectives. To preserve the customized portfolio management of Bay Capital, no typical allocation software is utilized. Bay Capital will meet with the client on a regular basis, or as determined by the client, to review the accounts managed or supervised by Bay Capital. Bay Capital will, when needed, suggest changes in the selection of investment options to more effectively address each client's goals.

### **Portfolio Management Services**

Bay Capital provides portfolio management services which can best be described as providing continuous investment advice to a client (or making investments for the client) based on the individual needs of the client. Through this service, Bay Capital offers a highly customized and individualized investment program for each client. A specific investment strategy and investment policy is crafted to focus on each specific client's goals and objectives.

Typically, Bay Capital reviews a client's portfolio on a quarterly basis and may or may not rebalance the client's assets at that time. During the client's annual review meeting, Bay Capital re-educates the client about prudent investing and may provide information on new investment products and services, and new academic research that affects the client. Clients have the responsibility to re-educate Bay Capital too, updating their financial status, objectives, and constraints, and focusing on any changes since the last meeting. All of this is used to update the client's portfolio management strategy, which includes the risk tolerance level and the client's written investment policy statement. Finally, if it is expected to result in a benefit to the client, Bay Capital reallocates the client's portfolio. Bay Capital calculates an asset allocation designed for the client's unique objectives and constraints.

Bay Capital may provide portfolio management services through accounts maintained at a qualified custodian recommended by Bay Capital or selected by the client. Under this agreement, Bay Capital will be granted trading authorization on the client's account. Please refer to Item 16 – Investment Discretion for more information.

For portfolio management services, Bay Capital charges an annual fee of 1.25% of the client's assets under management, subject to negotiation. The annual fee is divided and billed monthly in advance and is based on the market value of the assets under management on the last business day of the previous month. Fees will be assessed pro rata in the event the portfolio management agreement is executed at any time other than the first day of a calendar month. The annual fee is negotiable based on the client's amount of assets, financial complexity, and overall services needed. The exact fee charged to each client will be stated in the client's portfolio management agreement.

Bay Capital will either invoice the client directly for management fees or payment will be made via fee deduction directly from the client's account provided the client provides written authorization permitting the fees to be paid directly from their account to Bay Capital. Bay Capital will not have access to client funds for payment of fees without client consent in writing. When fees are deducted from an account, Bay Capital is responsible for calculating the fee and delivering instructions to the custodian. At the same time Bay Capital instructs the custodian to deduct fees from the client's account, Bay Capital will send the client an invoice itemizing the fee. Itemization shall include the formula used to calculate the fee, the amount of assets under management the fee is based on, and the time period covered by the fee.

Further, the qualified custodian will deliver, at least quarterly, an account statement directly to the client or client's independent representative showing all disbursements from the account, including the amount of the advisory fee when deducted directly from the account. The client is encouraged to review their account statements for accuracy. Bay Capital will receive a duplicate copy of the statement that was delivered to the client.

Bay Capital or the client may terminate the management agreement within five days of the date of acceptance without penalty to the client. After the five-day period, either party, upon 30 days' written notice to the other, may terminate the management agreement. In the event of termination, the client will receive a pro-rated refund based on the number of days service is provided during the final month. The final refund will be based on the market value of the assets under management on the date of termination.

### **Investment Analysis and Corporate Planning Services**

Bay Capital provides Investment Analysis and Corporate Planning Services for an hourly fee. Such services can be combined or provided to clients separately and are consultative in nature. Bay Capital does not implement recommendations provided through this service. It is the responsibility of the client contracting for services to make final decisions regarding the implementation of any recommendations and advice provided by Bay Capital.

Investment Analysis Services can be described as providing specific advice regarding the portfolio or asset holdings of the client. Bay Capital will review the client's investment accounts and other investment holdings to provide specific recommendations and analysis of the holdings. Investment Analysis Services may take into consideration, but are not limited to, each client's objectives, risks that they are willing to undertake, investment knowledge, net worth, and income. Based on the submitted data and information compilation, portfolios are reviewed and recommendations are provided by Bay Capital.

Corporate Planning Services focus on cash management and refinancing decisions. Cash management is the strategy by which a company administers and invests its cash. It can also be defined as the control of cash collections. Refinancing is the process of paying off an existing loan with the proceeds from a new loan, usually of the same size, and using the same property as collateral. Bay Capital helps clients contracting for this service calculate how much the up-front money used to purchase a new loan would be worth when the savings are received. Other reasons to refinance include reducing the term of a longer mortgage, or switching between a fixed-rate and an adjustable-rate mortgage. Such services are provided to small businesses and corporations.

Investment Analysis and Corporate Planning Services may be provided on a one-time basis or provided on-going as requested by the client. Bay Capital encourages all clients to have their financial situations and investment accounts subsequently reviewed on a regular basis. Investment Analysis and Corporate

Planning Services are billed on an hourly rate. The rate set for the hourly fee and the number of hours expected to be provided are negotiable with the client based upon factors such as, but not necessarily limited to, the complexity of the client's situation and the actual services to be provided. As policy of Bay Capital, the fee will not exceed \$325 per hour.

Bay Capital will provide the client with an advance written estimate of the amount of hours needed to complete Investment Analysis and Corporate Planning Services, the hourly rate, and the terms of payment. If it is later determined that the total cost will exceed the maximum amount quoted, Bay Capital will contact the client to receive authorization to provide additional services. Hourly fees are billed monthly in arrears. Payment is due upon client's receipt of an invoice delivered by Bay Capital.

Investment Analysis and Corporate Planning Services terminate upon written notice by either party. In the event services are terminated within five (5) days of executing the agreement for services, no fees shall be due. In the event services are terminated after the initial five (5) day period but prior to Bay Capital completing the agreed upon services, the client will owe Bay Capital a fee for the hours worked prior to notification of the termination.

If a client decides to accept any of Bay Capital's recommendations, it will be client's responsibility to implement any recommendations. Bay Capital will not have trading authorization for any of client's accounts and Bay Capital will not have direct access to client's accounts. At no time will Bay Capital have direct access to client funds and securities under these services. The client's qualified custodian(s) will maintain custody of all funds and securities.

#### **General Information on Advisory Services and Fees**

The fees charged are calculated as described above and are not charged on the basis of a share of capital gains upon or capital appreciation of the funds of an advisory client. As a member of the National Association of Personal Financial Advisors (NAPFA), Bay Capital is a fee-only advisor.

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

Item 6 of the Form ADV Part 2 instructions is not applicable to Bay Capital's brochure because Bay Capital does not charge or accept performance-based fees which can be defined as fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

#### **Item 7 – Types of Clients**

Bay Capital generally provides investment advice to the following types of clients.

- Individuals (including Trusts and Estates)
- High-Net Worth Individuals
- Charitable organizations

All clients are required to execute an agreement for services in order to establish a client arrangement with Bay Capital.

#### **Minimum Investment Amounts Required**

Bay Capital requires a minimum investment amount of \$1,000,000 for portfolio management services. Exceptions may be granted to the minimums at the discretion of Bay Capital.

There is no minimum requirement for Investment Analysis and Corporate Planning Services.

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

### **Methods of Analysis in Formulating Investment Advice**

**Cyclical** - Analyzes the investments sensitive to business cycles and whose performance is strongly tied to the overall economy. For example, cyclical companies tend to make products or provide services that are in lower demand during downturns in the economy and higher demand during upswings. Examples include the automobile, steel, and housing industries. The stock price of a cyclical company will often rise just before an economic upturn begins, and fall just before a downturn begins. Investors in cyclical stocks try to make the largest gains by buying the stock at the bottom of a business cycle, just before a turnaround begins.

While most economists and investors agree that there are cycles in the economy that need to be respected, the duration of such cycles is generally unknown. An investment decision to buy at the bottom of a business cycle may actually turn out to be a trade that occurs before or after the bottom of the cycle.

If done before the bottom, then downside price action can result prior to any gains. If done after the bottom, then some upside price action may be missed. Similarly, a sell decision meant to occur at the top of a cycle may result in missed opportunity or unrealized losses.

**Fundamental** - A method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

The risk associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong, and could therefore lead to an unfavorable investment decision.

**Geo-political** – An approach of evaluating risks of governmental-created anomalies in the normal functioning of markets. There is no technical method of this analysis. With globalization, this approach takes on increasing importance.

The risk associated with this analysis method is that, independent of normal market movements in the U.S., the international economies have an increasingly strong impact on our U.S. markets. These geo-political changes are even more difficult to predict, which requires thoughtful diversification of those risks.

## **Investment Strategies when Managing Client Assets and/or Providing Investment Advice**

Bay Capital does not fully trust “modern portfolio theory” (MPT) in the management of client portfolios, but does use rely on some of its key concepts. Basically, MPT suggests that client returns can be increased while risk is reduced by an allocation among different asset classes determined by a technique known as the “efficient frontier”. Bay Capital has learned that the correlations assumed in MPT and the efficient frontier change too much over time to be predictable. In addition, MPT measures volatility by use of a statistical technique known as standard deviation, which Bay Capital deems is a poor measure of risk.

Therefore, the firm loosely employs the basic concept of MPT, but combines it with a “core-satellite” approach, whereby the body of the portfolio is allocated among the asset classes similar to MPT but allocates some satellite portion of the portfolio to particular investment opportunities that Bay Capital believes is in the best interests of the client. This customized target asset allocation is documented in the client’s written investment policy statement, signed by both the client and Bay Capital.

In addition, we use some of the following general strategies.

- Long term purchases. Investments held at least a year.
- Short term purchases. Investments sold within a year.
- Trading. Investments sold within 30 days.
- Short sales. This practice is strongly discouraged by Bay Capital, as the loss could be theoretically infinite. A short sale is generally the sale of a stock not owned by the investor. Investors who sell short believe the price of the stock will fall. If the price drops, the investor can buy the stock at the lower price and make a profit. If the price of the stock rises and the investor buys it back later at the higher price, the investor will incur a loss. Short sales require a margin account. Bay Capital will only enter into this type of trade for a client, if requested in writing and signed by the client, the client’s attorney, and the client’s CPA.
- Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock for Bay Capital.
- Option writing including covered options, uncovered options, or spreading strategies. Options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time. Generally speaking the firm will only do covered calls to generate income but not to speculate on price changes.

Bay Capital’s does not rely on the frequent trading of securities. The frequent trading of securities may have a positive or negative impact on investment performance. Performance from active trading can be lowered due to an increase in brokerage and other transaction costs.

### **Risk of Loss**

Past performance is not necessarily indicative of future results. Therefore, no current or prospective client should assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. Clients and prospective clients should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, Bay Capital does not represent, warrant, or imply that the services or methods of analysis offered by Bay Capital can or will predict future results, successfully identify market tops or bottoms, or insulate any client from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through our investment management program.

- Market Risk – Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Equity (stock) market risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk. When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.
- Fixed Income Risk. When investing in bonds, there is the risk that issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Options Risk. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- ETF and Mutual Fund Risk – When our firm invests in a an ETF or mutual fund, it will bear additional expenses based on its pro rata share of the ETFs or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.
- Management Risk – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.

## **Item 9 – Disciplinary Information**

This item is not applicable to Bay Capital's brochure because Bay Capital has not been subject to any legal or disciplinary events, including those listed at Item 9 of the Form ADV Part 2 instructions.

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

Bay Capital is an independent investment advisory firm and only provides financial and investment advisory services. The firm is not engaged in any other business activities and offers no other services than those described in this Disclosure Brochure.

Bay Capital is **not** and does **not** have a related company that is a (1) broker/dealer, municipal securities dealer, government securities dealer or broker, (2) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund), (3) other investment adviser or financial planner, (4) futures commission merchant, commodity pool operator, or commodity trading advisor, (5) banking or thrift institution, (6) accountant or accounting firm, (7) lawyer or law firm, (8) pension consultant, (9) real estate broker or dealer, (10) sponsor or syndicator of limited partnerships or (11) insurance company.

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

### **Code of Ethics Summary**

Unlike some other companies and financial professionals offering investment-related services, an investment advisor is considered a fiduciary. As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts. In addition, an investment advisor has a duty of utmost good faith to act solely in the best interest of each of its clients.

As an investment advisor, Bay Capital and its employees have a fiduciary duty to all clients. Bay Capital has established a Code of Ethics which all employees must read. They must then execute an acknowledgment agreeing that they understand and agree to comply with Bay Capital's Code of Ethics. The fiduciary duty of Bay Capital and its employees to clients is considered the core underlying principle for Bay Capital's Code of Ethics and represents the expected basis for all employees' dealings with clients.

- Bay Capital has the responsibility to make sure that the interests of clients are placed ahead of it or its employees' own investment interests.
- All employees will conduct business in an honest, ethical and fair manner. All employees will comply with all federal and state securities laws at all times.
- Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to services being conducted.
- All employees have a responsibility to avoid circumstances that might negatively affect or appear to affect the employees' duty of complete loyalty to their clients.

This section is only intended to provide current clients and potential clients with a description of Bay Capital's Code of Ethics. If current clients or potential clients wish to review Bay Capital's Code of Ethics in its entirety, a copy may be requested from any of Bay Capital's employees and a copy will be provided promptly.

### **Affiliate and Employee Personal Securities Transactions Disclosure**

Bay Capital and its employees may buy or sell – for their personal account(s) - investment products identical to those recommended to Clients. It is the expressed policy of Bay Capital that no person employed by Bay Capital may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts. Bay Capital has established the following restrictions in order to ensure its fiduciary responsibilities:

- Bay Capital emphasizes the unrestricted right of clients to specify investment objectives, guidelines, and/or conditions on the overall management of their accounts.
- Employees or their immediate family members shall not buy or sell securities for their personal portfolio(s) where their decision is derived in any way, by reason of the employee's employment, unless the information is also available to the investing public on reasonable inquiry.
- Employees are not allowed to prefer their own interests over the interests of clients. Investment opportunities must be offered first to clients before Bay Capital or employees may participate in such transactions.
- Bay Capital and its employees are not allowed to participate in private placements or initial public offerings (IPOs) without pre-clearance from Jim Flinchum.
- Bay Capital requires that employees must follow all applicable federal and state regulations governing investment advisory firms.
- Records will be maintained of all securities bought or sold by Bay Capital, its employees, and certain employee family members. Jim Flinchum will review these records on a regular basis.
- Any individual not in observance of the above may be subject to termination.

It should be noted that Bay Capital's personal employee trading policy has been established recognizing that some securities being considered for purchase and/or sale on behalf of Bay Capital's clients trade in sufficiently broad markets to permit transactions by clients to be completed without an appreciable impact on the markets of the securities. Under certain circumstances, exceptions may be made to the policies stated above. Records of employee and client trades, including the reasons for the exceptions, will be maintained with Bay Capital's records in the manner set forth above.

Bay Capital's supervision of its employees personal investment accounts do not cover certain types of securities, such as obligations of the U.S. Government, and shares in open-end mutual funds. Open-end mutual funds are purchased or redeemed at a fixed net asset value price per share specific to the date of purchase or redemption. As such, transactions in mutual funds by Advisory Representatives are not likely to have an impact on the prices of the fund shares in which clients invest.

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

## **Item 12 – Brokerage Practices**

As stated in Item 5 – Fees and Compensation, Bay Capital participates in the TD Ameritrade Institutional program. Bay Capital recommends TD Ameritrade, as a result of its participation in the TD Ameritrade Institutional program, to serve as broker/dealer and qualified custodian for client accounts. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. (“TD Ameritrade”) a registered broker dealer and member FINRA/SIPC. TD Ameritrade offers independent investment advisers services which include custody of securities, trade execution, clearance and settlement of transactions.

It should be noted that not all investment advisory firms require or even recommend the use of a specific brokerage platform. By directing clients to open accounts through TD Ameritrade, Bay Capital may be unable to achieve the most favorable execution of client transactions and the use of TD Ameritrade may be more expensive than other brokerage platforms.

The recommendation of TD Ameritrade is based on past experiences, minimizing commissions and other costs as well as the offerings and services provided that Bay Capital and/or its clients may require or find valuable such as online access. Clients may pay commissions higher than those obtainable from other broker/dealers in return for those products and services. Commission and fee structures as well as the services and offerings of various broker/dealers are periodically reviewed to ensure clients are receiving best execution given the totality of the situation. Accordingly, while Bay Capital does consider competitive rates, Bay Capital may not necessarily obtain the lowest possible commission rates for client account transactions. Therefore, Bay Capital’s review focuses on a qualitative analysis which compares the overall services provided by TD Ameritrade against the services provided by its competitors to determine the overall best execution provided.

There is no direct link between Bay Capital’s participation in the program and the investment advice it gives to its clients, although Bay Capital receives certain economic benefits through its participation in the TD Ameritrade Institutional program. These benefits include: receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Bay Capital participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to clients’ accounts); the ability to have advisory fees deducted directly from clients’ accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, technology, and practice management products or services provided to Bay Capital by third party vendors. The benefits received by Bay Capital do not depend on the amount of brokerage transactions directed to TD Ameritrade.

As part of its fiduciary duties to clients, Bay Capital endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Bay in and of itself creates a potential conflict of interest. These benefits may indirectly influence Bay Capital’s choice of TD Ameritrade as the broker-dealer.

### **Client Directed Brokerage Arrangements**

Some clients may instruct Bay Capital to use one or more particular brokers, other than TD Ameritrade, for the transactions in their accounts. Clients who may want to direct Bay Capital to use a particular broker should understand that Bay Capital may be unable to effectively negotiating brokerage compensation on their behalf. When directing brokerage business, clients should consider whether the commission expenses and execution, clearance and settlement capabilities that they will obtain through their broker are adequately favorable in comparison to those that Bay Capital would otherwise obtain for its clients. Clients are encouraged to discuss available alternatives with Jim Flinchum.

### **Block Trading Policy**

Transactions implemented by Bay Capital for client accounts are generally effected independently, unless the firm decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used by the firm when Bay Capital believes such action may prove advantageous to clients. It is rare that Bay Capital will place transactions on block trades reflecting the individualized nature of portfolio management for each client portfolio. However, in the event of a severe market correction, block trades may be utilized to move all clients in or out of positions as quickly as possible. It should be noted that in some cases trading on a block basis may be less expensive than implementing numerous individual trades.

When Bay Capital aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among the firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When Bay Capital determines to aggregate client orders for the purchase or sale of securities, including securities in which Bay Capital may invest, the firm will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, Bay Capital does not receive any additional compensation or remuneration as a result of aggregation.

## **Item 13 – Review of Accounts**

### **Account Reviews and Reviewers**

Client accounts are monitored on a periodic basis with a formal review conducted at least annually. All reviews are conducted by James H. Flinchum, Bay Capital's sole member, Chief Compliance Officer and sole Advisor Representative. Because Mr. Flinchum is the sole Advisor Representative and sole member of Advisor, he receives instructions from no one else. Mr. Flinchum is solely responsible for all reviews and investment advice provided by Bay Capital. Formal reviews are triggered by changes in client circumstances, client request, or unusual market activity. Additional reviews may be provided at the client's request, material changes in the client's financial condition or pursuant to the terms of the executed agreement for services.

## **Statements and Reports**

Clients or their independent representatives are provided with statements from the client's qualified custodian. Statements are sent no less frequently than quarterly. Most custodians will send statements on a monthly basis when there is activity in the underlying account(s). Statements may be provided electronically.

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

Bay Capital does not directly or indirectly compensate anybody for client referrals.

The only form of compensation received by Bay Capital is the fees it charges for providing investment advisory services (as described in Items 4 and 5 of this brochure). Bay Capital receives no other forms of compensation in connection with providing investment advice.

### **Item 15 – Custody**

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented.

Bay Capital is deemed to have custody of client funds and securities whenever Bay Capital is given the authority to have fees deducted directly from client accounts. However, this is the only form of custody Bay Capital will ever maintain. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody

For accounts in which Bay Capital is deemed to have custody, Bay Capital has established procedures to ensure all client funds and securities are held at a qualified custodian (for example TD Ameritrade) in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from Bay Capital. When clients have questions about their account statements, they should contact Bay Capital or the qualified custodian preparing the statement.

Whenever Bay Capital deducts advisory fees from client accounts, Bay Capital will at the same time send an invoice to the client informing the client that fees are being deducted from the account. The fee invoice will provide an Itemization of the fee including the formula used to calculate the fee, the amount of assets under management the fee is based on, and the time period covered by the fee.

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

Through its portfolio management services and upon receiving written authorization from a client, Bay Capital will maintain trading authorization over client accounts. Upon receiving written authorization from the client, Bay Capital will implement trades on a **discretionary** basis. Such authorization is provided by the client in our agreement for services. By using discretionary, we will have the authority to determine

the type of securities and the amount of securities that can be bought or sold for the client's portfolio without obtaining the client's consent for each transaction.

All clients have the ability to place reasonable restrictions on the types of investments that may be purchased in an account. Clients may also place reasonable limitations on the discretionary power granted to our firm so long as the limitations are specifically set forth or included as an attachment to the client agreement.

Further, clients may exercise the right to not grant any trading authorization to Bay Capital. Bay Capital and the client shall mutually agree, in writing, to the precise authorization provided to Bay Capital.

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

Bay Capital does not vote proxies on behalf of its clients. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, Bay Capital had determined that taking on the responsibility for voting client securities results does not add enough value to the services provided to clients to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is the responsibility of Bay Capital clients, if they wish, to vote all proxies for securities held in accounts managed by Bay Capital.

Clients will receive proxies directly from their custodian or transfer agent and such documents will not be delivered to clients from Bay Capital. While Bay Capital does not vote client proxies, if a client has a question about a particular proxy the client can contact Jim Flinchum.

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

This item is not applicable to Bay Capital's brochure. Bay Capital does not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance. Therefore, Bay Capital is not required to include a balance sheet for its most recent fiscal year. Bay Capital is not subject to a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Finally, Bay Capital has not been the subject of a bankruptcy petition at any time.

### **Item 19 – Requirements for State-Registered Advisers**

#### **Executive Officers and Management Personnel**

Bay Capital's managing member, Chief Executive Officer and Chief Compliance Officer is **James H. Flinchum**. The following information is provided for Mr. Flinchum.

Born: 1947

#### Formal Education

- Investment Management Consultants Association, Certified Investment Management Analyst™, 2001
- Wealth Management Institute, Chartered Mutual Fund Counselor, 1997
- College of Financial Planning, CERTIFIED FINANCIAL PLANNER™, 1988
- University of Dallas, Masters of Science, World Trade, 1980
- College of William & Mary, M.B.A., Finance, 1973
- Old Dominion University, B.S., Finance, 1972

## Business Background

- Bay Capital Advisors, LLC, Managing Member/Chief Compliance Officer, 05/2006 - Present
- Beacon Wealth Advisors, LLC, Managing Member, 07/2005 06/2006
- Bank of America, Senior Vice President, 11/2002 – 06/2005
- Sun Trust Bank, Senior Vice President, 11/1993 – 11/2002

Mr. Flinchum is a CERTIFIED FINANCIAL PLANNER™ certificant or CFP® certificant and according to CFP® Rules of Conduct, Mr. Flinchum must provide his clients with contact information, information about the services he provides, any conflicts of interest that he may have related to the provision of services, and the costs to clients associated with the services being provided. These important disclosures are contained in this Disclosure Brochure document. Descriptions of the specific advisory and financial planning services provided to each client are contained in each client's agreement with Bay Capital.

Mr. Flinchum has acknowledged his responsibility as a CFP® certificant to adhere to the standards that have been established in the CFP® Board's Standards of Professional Conduct. If a client believes Mr. Flinchum's conduct may violate the Standards of Professional Conduct, the client may file a complaint with the CFP® Board at [www.CFP.net/complaint](http://www.CFP.net/complaint). Please contact Mr. Flinchum if you have any questions regarding his CFP® certificant or these disclosures.

The Certified Financial Planner™ (CFP®) designation is issued by the Certified Financial Planner Board of Standards, Inc. A candidate for designation must first obtain a bachelor's degree (or higher) from an accredited college or university and have 3 years of full-time personal financial planning experience. A candidate must then complete a CFP-board registered program or hold one of the following: Certified Public Accountant (CPA), Chartered Financial Consultant (ChFC), Chartered Life Underwriter (CLU), Chartered Financial Analyst (CFA), PhD. in business or economics, Doctor of Business Administration or attorney's license. The candidate must pass a certification examination and complete 30 hours of continuing education every 2 years.

## **Other Business Activities**

Bay Capital is not involved in any other business activities.

Mr. Flinchum spends the majority of his time focused on his responsibilities at Bay Capital. However, he is also the author of *Paybacks*, a novel written completely separate from the activities and services provided by Bay Capital Advisors. Mr. Flinchum spends up to 5% of his time marketing the sale of this book. This may include making public and private appearances. Such appearances may cover the advisory services provided by Bay Capital Advisors, but are typically focused on the book.

## **No Performance Based Fees**

As previously disclosed in Item 6, Bay Capital is not compensated based upon performance based fee arrangements. In addition, the firm is a member of the National Association of Personal Financial Advisors, which prohibits such fees.

## **Arbitration Disclosure**

Bay Capital has not been the subject of any client arbitrations or similar legal disputes.

## **Information Required by Part 2B of Form ADV: *Brochure Supplement***

The following are responses to each item found in the Form ADV Part 2B instructions.

### **Item 1 – Cover Page**

This brochure supplement provides information about James Flinchum that supplements the information previously provided in this brochure. Please contact him at 757-963-5699 if you have any questions about the contents of this supplement. Additional information about Mr. Flinchum is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **Item 2 – Educational Background and Business Experience**

Please see Item 19 of this Disclosure Brochure for Mr. Flinchum's education and business experience background.

### **Item 3 – Disciplinary Information**

As previously stated in Item 9 of this Disclosure Brochure, Mr. Flinchum has never been subject to a legal or disciplinary event.

### **Item 4 – Other Business Activities**

Please see Item 19 of this Disclosure Brochure for Mr. Flinchum's other business activities.

### **Item 5 – Additional Compensation**

Other than the fees detailed in Item 5 of this Disclosure Brochure, Mr. Flinchum receives no other compensation related to advisory services provided to clients.

### **Item 6 – Supervision**

Mr. Flinchum is the sole investment advisor representative of Bay Capital and the Chief Compliance Officer. He is ultimately responsible for all activities and services provided by the firm.

### **Item 7 – Requirements for State-Registered Advisers – Legal and Financial Disclosure**

Mr. Flinchum has not been the subject of any client arbitrations or similar legal disputes.

## Customer Privacy Policy

Like most industries today, the financial services industry is rapidly being shaped by technology, which is literally changing the way we do business. To be successful in this environment, we must continue to insure that our customers are confident that we will manage their financial affairs expertly and confidentially.

At Bay Capital Advisors, LLC, our customers have access to a broad range of products and services. To deliver these products and services as effectively and conveniently as possible, it is essential that we use technology to manage and maintain certain customer information.

We want to assure all of our customers that whenever information is used, it is done with discretion. The safeguarding of customer information is an issue we take seriously at Bay Capital Advisors, LLC. To affirm our continuing commitment to the proper use of customer information, we have set the following Privacy Principles. It is these Privacy Principles that guide us in serving the privacy needs of our customers.

1. **Recognition of a Customer's Expectation of Privacy:** At Bay Capital Advisors, LLC, we believe the confidentiality and protection of customer information is one of our fundamental responsibilities. And while information is critical to providing quality service, we recognize that one of our most important assets is our customers' trust. Thus, the safekeeping of customer information is a priority for Bay Capital Advisors, LLC.
2. **Use, Collection, and Retention of Customer Information:** Bay Capital Advisors, LLC limits the use, collection, and retention of customer information to what we believe is necessary or useful to conduct our business, provide quality service, and offer products, services, and other opportunities that may be of interest to our customers. Information collected may include, but is not limited to: name, address, telephone number, tax identification number, date of birth, employment status, annual income and net worth.
3. **Maintenance of Accurate Information:** Bay Capital Advisors, LLC recognizes that it must maintain accurate customer records. Therefore, Bay Capital Advisors, LLC has established procedures to maintain the accuracy of customer information and to keep such information current and complete. These procedures include responding to requests to correct inaccurate information in a timely manner.
4. **Limiting Employee Access to Information:** At Bay Capital Advisors, LLC, employee access to personally identifiable customer information is limited to those with a business reason to know such information. Employees are educated on the importance of maintaining the confidentiality of customer information and on these Privacy Principles. Because of the importance of these issues, Bay Capital Advisors, LLC employees are responsible for maintaining the confidentiality of customer information and employees who violate these Privacy Principles will be subject to disciplinary measures.
5. **Protection of Information via Established Security Procedures:** Bay Capital Advisors, LLC recognizes that a fundamental element of maintaining effective customer privacy procedures is to provide reasonable protection against the unauthorized access to customer information. Therefore, Bay Capital Advisors, LLC has established appropriate security standards and procedures to guard against any unauthorized access to customer information.
6. **Restrictions on the Disclosure of Customer Information:** When it comes to sharing customer information with unaffiliated companies, Bay Capital Advisors, LLC places strict limits on who receives specific information about customer accounts and other personally identifiable data. Bay Capital Advisors, LLC does NOT share information with such companies even if they provide a product or service that may benefit our customers.

We may share information with unaffiliated companies that assist us in providing our products and services to our customers; in the normal course of our business (for example, with consumer reporting

agencies and government agencies); when legally required or permitted in connection with fraud investigations and litigations; in connection with acquisitions and sales; and at the request or with the permission of a customer.

7. Maintaining Customer Privacy in Business Relationships with Third Parties: If we provide personally identifiable customer information to a third party with which we have a business relationship, we will insist that the third party keep such information confidential, consistent with the conduct of our business relationship.

8. Disclosure of Privacy Principles to Customers: Bay Capital Advisors, LLC recognizes and respects the privacy expectations of our customers. We want our customers to understand our commitment to privacy in our use of customer information. As a result of our commitment, we have developed these Privacy Principles which are made readily available to our customers. Customers who have questions about these Privacy Principles or have a question about the privacy of their customer information should contact Jim Flinchum, at 757-963-5699 or via email at [jim@baycapitaladvice.com](mailto:jim@baycapitaladvice.com).

In the event that Bay Capital Advisors, LLC has a change to its customer privacy policy that would allow us to disclose non-public information not covered under applicable law, Bay Capital Advisors, LLC will allow its clients the opportunity to opt-out of such disclosure.