

# **Stack Financial Management, Inc.**

## **Form ADV Part 2A Brochure**

**March 28, 2011**

**This brochure provides information about the qualifications and business practices of Stack Financial Management, Inc. (“SFM”). If you have any questions about the contents of this brochure, please contact us at 406-862-8000 or [sfm@StackFinancialManagement.com](mailto:sfm@StackFinancialManagement.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

### **Stack Financial Management**

2472 Birch Glen, Suite A  
Whitefish, Montana 59937

Contact: Catherine M. Hetrick, Chief Compliance Officer

Website: [www.StackFinancialManagement.com](http://www.StackFinancialManagement.com)

SEC File Number: 801 – 45724

**Additional information about Stack Financial Management, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Stack Financial Management, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## **Item 2           Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission adopted “Amendments to Form ADV.” This Brochure dated March 28, 2011 is prepared according to the SEC’s new requirements and rules, and contains more detailed information than our earlier documents were required to disclose. Consistent with the new rules, we will ensure that all clients of Stack Financial Management receive a summary of any material changes to this and subsequent Brochures within 90 days of the close of our business’ fiscal year. Furthermore, we will provide all clients with other interim disclosures about material changes as necessary. These documents are provided, and may be requested by a client at any time, without charge.

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#### **Item 4            Advisory Business**

Stack Financial Management, Inc. (“SFM”) is a corporation formed in the State of Montana on January 19, 1994. SFM became registered as an Investment Adviser Firm in February 1994. SFM is owned by James B. Stack, and Mr. Stack is the firm’s President.

Stack Financial Management offers investment advisory services on a fee-only basis to its clients, which include individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations, etc. SFM may also serve as sub-advisor to clients of another registered advisor.

Investment advisory services offered by SFM primarily focus on the management of equity (stock-based) portfolios, with an analytical emphasis on adjusting allocation based on the measured or perceived level of risk in the stock market, as described in Item 8 below.

Stack Financial Management does not hold itself out as providing financial planning, estate planning or accounting services. However, to the extent specifically requested by the client, we *may* provide limited consultation services to our investment management clients on investment and non-investment related matters, such as retirement withdrawal planning, estate planning, tax planning, etc. SFM shall not receive any separate or additional fee for any such consultation services. Neither SFM, nor any of its representatives, serves as an attorney, accountant, or licensed insurance agent, and no portion of our services should be construed as same.

Stack Financial Management provides investment advisory services specific to the needs of each client, but within management guidelines and objectives established by SFM, which shall include, but not be limited to, Capital Appreciation Portfolios and Value & Dividend Portfolios. Individual clients may select an objective for each account based on his/her needs or preference. Prior to providing investment advisory services, an investment adviser representative will ascertain each client’s investment objective(s). Thereafter, SFM shall allocate investment assets consistent with the designated investment objective(s). The client may, at any time, impose reasonable restrictions, in writing, on our services or the types of securities to be held in their account.

#### **Client Obligations**

In performing its services, Stack Financial Management shall not be required to verify any information received from the client or from the client’s other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify SFM if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

#### **Wrap Fee Programs**

Stack Financial Management does not participate in any wrap fee programs.

#### **Assets Under Management**

As of March 28, 2011, the Stack Financial Management had \$615,072,095 in assets under management on a discretionary basis.

#### **Other Business**

Stack Financial Management’s Principal, James B. Stack, is also the owner of InvesTech Research, LLC which publishes general circulation investment newsletters known as “InvesTech Market Analyst” and “InvesTech Portfolio Strategy.” In addition, InvesTech Research periodically publishes an Interim

Bulletin, as well as a twice weekly financial information report entitled “InvesTech Financial Hotline” available to subscribers of the newsletters.

## **Item 5 Fees and Compensation**

The client can determine to engage Stack Financial Management to provide discretionary investment advisory services on a *fee-only* basis.

If a client determines to engage SFM to provide investment advisory services, our annual investment advisory fee shall be based upon a percentage (%) of the market value of assets placed under SFM’s management as follows:

### **INVESTMENT ADVISORY SERVICE FEES**

<u>Account Value</u>	<u>Annual Fee</u>
\$600,000 - \$749,999	1.40%
\$750,000 - \$1,249,999	1.20%
\$1,250,000 - \$2,999,999	1.00%
\$3,000,000 - \$4,999,999	0.85%
\$5,000,000 - \$10,000,000	0.75%

Fees on assets over \$10,000,000 are negotiable

- Fees are calculated based on the total value of all related accounts (based on immediate family or household relationship) under management for an individual client.
- Account minimum asset level for investment advisory services is \$600,000, except as noted in Item 7 below.
- If the initial minimum account requirement has been waived for a client or the account was established prior to 2006 (when the minimum requirement was raised) and the account remains at a level below \$400,000, the annual fee for the account shall be 1.70%.
- If an account is established above a particular fee schedule breakpoint or appreciates above a breakpoint to receive a lower management fee, then that lower fee shall apply even if the account drops below the breakpoint, *unless* the reduction in assets under management is primarily due to withdrawals.

Stack Financial Management may maintain cash positions for defensive purposes 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). All cash positions (money markets, etc) shall be included as part of assets under management for purposes of calculating the advisory fee.

Stack Financial Management reserves the right to enter into contracts with clients that may result in fees that are less than the standard fee schedule set forth above based upon certain criteria including, but not limited to, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, terms of a sub-advisor agreement, or account composition.

Stack Financial Management may choose to waive up to one-half the management fee for a billing period if an average of fifty percent (50%) of total assets under management are maintained in cash or cash-equivalent investments such as Treasuries or Money Market Funds. Any waiver of management fees will be equitable to all client accounts under SFM’s management.

### **Billing Practices**

Stack Financial Management shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter. Clients may elect to have our advisory fees deducted from their custodial account. Both SFM's *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of our investment advisory fee and to directly remit that management fee to SFM in compliance with regulatory procedures. In the limited event that SFM bills the client directly, payment is due upon receipt of our invoice.

### **Other Fees or Expenses**

Stack Financial Management recommends that Charles Schwab and Co., Inc. ("Schwab") serve as the broker-dealer/custodian for our clients' investment management assets. Broker-dealers such as Schwab charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). The broker may also charge a fee for special client requested services such as wire transfers, overnight mail, etc. In addition to SFM's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

### **Cancellation or Termination of Advisory Services**

Stack Financial Management's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. For new accounts, the initial quarterly fee is due beginning with the first full quarter following acceptance of the *Investment Advisory Agreement* and establishment of the account.

The *Investment Advisory Agreement* between SFM and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, SFM shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter. A new client shall also have five business days subsequent to executing the *Investment Advisory Agreement* to terminate SFM's services without penalty.

### **Other Compensation**

Neither Stack Financial Management, nor its representatives accept compensation from the sale of securities or other investment products.

**SFM's Chief Compliance Officer, Catherine M. Hetrick, is available to address any questions that a client or prospective client may have regarding the above fees, billing practices, or cancellation policy.**

### **ADDITIONAL INFORMATION**

#### **Trade Error Policy**

If Stack Financial Management makes an error when submitting a trade order on a client's behalf, it is SFM policy that the error be corrected as soon as possible and in such a manner that the affected client is not disadvantaged and bears no loss. Immediately upon recognition of an error, we will contact the broker-dealer, Charles Schwab & Co., to initiate any correcting action necessary to rectify the error. If a correcting trade would result in a loss or gain within a client's account, the following will apply:

- If a loss of \$100 or more occurs, Stack Financial Management is responsible for the cost of correcting the trade.

- If an investment gain of \$100 or more occurs, the gain will remain in the client's account *unless*: a) the same error involved another client's account(s) that should have received the gain; or b) it is not permissible for the client to retain the gain; or c) the client decides to forego the gain (e.g., due to tax reasons). If the gain does not remain in the client's account, Schwab will donate any portion that is equal to or greater than \$100 to charity.
- If the loss or gain is less than \$100, then Charles Schwab & Co. will be directed to correct the trade at its expense, and at no cost or benefit to the client's account or to Stack Financial Management.

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

Neither Stack Financial Management nor any supervised person of SFM accepts performance-based fees.

## **Item 7 Types of Clients**

Clients of Stack Financial Management shall generally include individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations. In addition, SFM may agree to serve as a sub-advisor for similar clients of another advisor pursuant to a Sub-Advisory Agreement.

Stack Financial Management generally requires a \$600,000 minimum asset level for investment advisory services. Existing clients may open additional related accounts, based on family or household relationship, with a minimum asset level of \$250,000 each. SFM, in its sole discretion, may reduce or waive its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, related accounts, family relationship with existing clients, terms of subadvisor agreement, account composition, etc.).

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

### **Methods of Analysis**

Stack Financial Management utilizes historical, macroeconomic, and technical analysis to assess the degree of risk in the market and determine investment allocation based on that measured or perceived level of risk. This analysis includes indicators developed internally at InvesTech Research, or published by other research firms and government agencies.

Sector studies, based on historical data and relative sector performance in past economic cycles or similar market climate, are also utilized in determining optimal sector allocation or weighting based on market conditions and economic outlook.

In addition, SFM employs fundamental analysis of corporate reports, balance sheets, income statements, and historical valuation metrics in the selection of individual securities for client portfolios.

### **Investment Strategies**

Stack Financial Management strives to meet the investment objectives of clients through two broad categories: Capital Appreciation Portfolios and Value & Dividend Portfolios, as described below.

***Capital Appreciation Portfolios:***

Designed for clients whose primary objective is conservative growth and where income is not a primary consideration. These portfolios are particularly well suited for value-oriented investors seeking to maximize their retirement or long-term savings, and who have over 10 years until retirement or anticipated capital withdrawals. This strategy selects companies with strong internal growth characteristics in revenue and earnings, which typically are market leaders in their core business. While valuation is an important consideration, the emphasis is on growth at a reasonable price.

***Value & Dividend Portfolios:***

Designed for clients who desire capital gain potential, but with a consistent and relatively high level of dividend income. This option is most suitable for conservative clients, who want more stable returns and a potentially lower level of price volatility, or retired clients seeking current income from their portfolio. This strategy identifies quality companies that are undervalued or temporarily out of favor, but offer solid earnings and attractive dividend yields.

Investments in both *Capital Appreciation Portfolios* and *Value & Dividend Portfolios* may include:

- Predominantly large-cap and mid-cap stocks, with some small-cap stocks.
- Exchange traded funds (ETF's), sector funds, or mutual funds.
- International stocks (ADRs) or funds.
- Defensive positions in bear market exchange traded funds (ETF's) or bear market mutual funds if conditions warrant.
- Limited positions in bonds or bond funds under special circumstances
- Money market funds, certificates of deposit or T-bills.

**Risk of Loss**

Investing in the stock market and in individual securities involves risk of loss. 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 Stack Financial Management) will be profitable or equal any specific performance level.

**Material Risks**

As part of our investment strategy, Stack Financial Management allocates client investment assets among various individual stocks, exchange traded funds and/or mutual funds, bonds and other fixed income securities, or cash on a discretionary basis in accordance with the client's designated investment objective(s), as outlined above. Our methods of analysis and investment strategies do not present any unusual risks, however every method of analysis or investment strategy has its own inherent risks.

To perform an accurate market analysis SFM must have access to current/new market information. We have no control over the timeliness or accuracy of market information; therefore, certain analyses may be based on market information that is outdated or inaccurate, thereby limiting the value of resulting analysis. Furthermore, an accurate market analysis can only produce a forecast of the level of market risk or direction of market values. There can be no assurances that such forecasts will materialize into actionable and/or profitable investment opportunities, or that SFM will correctly measure and adequately protect against the level of market risk.

At any specific point in time, depending upon perceived or anticipated market conditions/events, Stack Financial Management may maintain substantial cash positions for defensive purposes. There is no guarantee that such anticipated market conditions/events will occur, in which case the cash level of the account may reduce the potential gain from what it otherwise may have been.

Also, SFM may utilize a position in a bear market fund (or inverse-index exchange traded fund) to offset long positions and reduce overall market exposure in the portfolio when there is significant risk of a severe market correction or bear market. There is, however, no guarantee that such a correction or bear market will occur, in which case potential gains in the portfolio will be reduced from what they might otherwise have been.

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 Stack Financial Management) will be profitable or equal any specific performance level.

### **Item 9           Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Neither Stack Financial Management nor any of our management personnel has ever been the subject of any legal or disciplinary events.

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

Neither Stack Financial Management, nor our representatives, are registered or have an application pending to register as a securities broker-dealer or a registered representative of a broker-dealer.

Neither Stack Financial Management, nor our representatives, are registered or have an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

Stack Financial Management does not have any relationship or arrangement that is material to our advisory business or to our clients with any related person.

Stack Financial Management does not receive, directly or indirectly, compensation from other investment advisors that we may recommend for our clients.

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

Stack Financial Management has adopted and maintains an investment policy relative to personal securities transactions. This investment policy is part of our overall Code of Ethics, which serves to establish a standard of business conduct for all of our representatives that is based upon fundamental principles of openness, integrity, honesty and trust – a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, we also maintain and enforce written policies reasonably designed to prevent the misuse of material non-public information by SFM or any person associated with SFM.

Neither Stack Financial Management nor any related person of SFM recommends, buys, or sells for client accounts, securities in which SFM or any related person of the firm has a material financial interest.

Stack Financial Management and/or representatives of SFM *may* buy or sell securities that are also recommended to clients. This situation could present a potential conflict of interest which is addressed in our policies and procedures. For instance, this creates a situation where the firm and/or its representatives are in a position to materially benefit from the sale or purchase of those securities. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if SFM did not have adequate policies in place to detect such activities. In addition, adequate policies can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of our clients) and other potentially abusive practices.

Stack Financial Management has a personal securities transaction policy in place to address and monitor the personal securities transactions and securities holdings of each of our “Access Persons”. Under that policy, Access Persons and their immediate families are restricted from purchasing or selling any security (other than open-end mutual funds, government-issued securities, annuities, certificates of deposit and money market securities) which SFM or its representatives are actively contemplating trading for clients’ accounts until after the transaction has been executed for all clients. Our securities transaction policy requires that each Access Person of SFM must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date that SFM selects; as well as quarterly reports of securities transactions executed during the previous three months. At any time that Stack Financial Management has only one Access Person, he or she shall not be required to submit any securities report described above. Intentional violation of this policy is punishable by, but not limited to, suspension or termination of employment.

Stack Financial Management and/or representatives of the firm *may* buy or sell securities at, or around, the same time as those securities are recommended to clients. This practice creates a situation where SFM and/or representatives of the firm are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above, SFM has a personal securities transaction policy in place to avoid potential conflicts of interest and to monitor the personal securities transactions and securities holdings of each of our Access Persons.

## **Item 12 Brokerage Practices**

Prior to engaging Stack Financial Management to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with SFM setting forth the terms and conditions under which we shall manage the client's assets, and a separate custodial/clearing agreement with a designated broker-dealer/custodial firm.

Stack Financial Management currently recommends that client accounts be held in custody and brokerage services be provided by the Schwab Institutional division of Charles Schwab & Co., Inc. (“Schwab”).

Factors that SFM considers in recommending Schwab (or any other broker-dealer/custodian) include:

- Historical relationship with our firm.
- Financial strength, stability and reputation.
- Efficiency and capability of trade execution and error resolution.
- Competitive commissions and pricing of other required client services.
- Available research.

- Quality of customer service.
- Offering of on-line access to computerized data regarding clients' accounts.

Although the commissions and/or transaction fees paid by our clients shall comply with our 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 we determine, in good faith, that the commission/transaction fee 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 a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although SFM will seek competitive rates, we may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, SFM's investment management fee. SFM's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

### **Research and Additional Benefits**

Although not a material consideration in recommending that clients utilize the services of Charles Schwab & Co. as broker-dealer/custodian, Stack Financial Management may receive from Schwab without cost (and/or at a discount) support services and/or products, certain of which assist us to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by SFM 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 SFM in furtherance of our investment advisory business operations.

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

In addition, in return for effecting securities transactions through Schwab, Stack Financial Management may receive certain third party investment research products and/or services which assist us in our investment decision-making process for the client pursuant to Section 28(e) of the Securities Exchange Act of 1934 (generally referred to as soft dollar arrangements). Investment research products or services received by SFM may include, but are not limited to, analyses pertaining to specific securities, companies or sectors, as well as market, financial and economic studies and forecasts. Any third-party products or services provided to us by Schwab on this basis are used for research that benefits all our clients, regardless of the commission related soft dollar credits that may be generated by an account.

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

### **Referrals and Directed Brokerage**

Stack Financial Management does not receive referrals from broker-dealers.

Stack Financial Management does not currently accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer).

### **Aggregation of Trades**

To the extent that Stack Financial Management provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless we decide to purchase or sell the same securities for several or multiple clients at approximately the same time. SFM may (but is not obligated to) combine or “block” such orders to obtain best execution, or to allocate equitably among our clients differences in prices that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. SFM shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13      Review of Accounts**

For those clients to whom Stack Financial Management provides investment supervisory services, account reviews are conducted on an ongoing basis by SFM’s Principals and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise us of any changes in their investment objectives and/or financial situation. All clients (in person, via telephone or via email) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with us on an annual basis.

Stack Financial Management *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, significant deposits or withdrawals, market corrections and client request.

Clients are provided, at least monthly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian for the client accounts. Stack Financial Management also provides a written quarterly report summarizing account activity and performance.

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

As referenced in Item 12 above, Stack Financial Management may receive an indirect economic benefit from Schwab. SFM, without cost (and/or at a discount), may receive support services and/or products from Schwab. SFM’s clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of this arrangement. There is no corresponding commitment made by SFM to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

Stack Financial Management does not compensate, directly or indirectly, any person, other than our representatives, for client referrals.

### **Item 15      Custody**

Stack Financial Management shall have the ability to have our advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least monthly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian for the client accounts. Stack Financial Management also provides a written quarterly report summarizing account activity and performance.

**Please Note:** To the extent that Stack Financial Management provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by SFM with the account statements received from the account custodian. The account custodian does not verify the accuracy of SFM's advisory fee calculation.

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

The client can determine to engage Stack Financial Management to provide investment advisory services on a discretionary basis. Prior to SFM assuming discretionary authority over a client's account, the client shall be required to execute an SFM *Investment Advisory Agreement* and a separate Schwab Limited Power of Attorney form, naming SFM as the client's attorney and agent in fact, granting SFM full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage us on a discretionary basis may, at any time, impose restrictions, in writing, on our discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, or exclude the ability to purchase securities with an inverse relationship to the market, etc.).

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

Unless the client directs otherwise in writing, Stack Financial Management is responsible for voting client proxies (**However**, the client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the account assets, including, but not limited to, class action lawsuits.). SFM shall vote proxies in accordance with our Proxy Voting Policy, a copy of which is available upon request. SFM shall monitor corporate actions of individual issuers and investment companies consistent with our fiduciary duty to vote proxies in the best interests of our clients. Although the factors which SFM will consider when determining how we will vote differ on a case by case basis, they may include, but are not limited to, the following: a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employees and executive and director compensation. With respect to individual issuers, SFM may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), we may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. SFM does not envision any situation or proposal in which it would face a conflict of interest in deciding proxy votes in the best interest of the client.

Stack Financial Management shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. A copy of SFM's proxy voting policy or information pertaining to how we voted on any specific proxy issue is also available upon written request. Requests should be made by contacting SFM's Chief Compliance Officer, Catherine M. Hetrick.

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

Stack Financial Management has no financial commitments that impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of bankruptcy proceedings.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

**Stack Financial Management's Chief Compliance Officer, Catherine M. Hetrick, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**

## Part 2B of Form ADV: *Brochure Supplement*

### James B. Stack

Stack Financial Management, Inc.  
2472 Birch Glen, Suite A  
Whitefish, Montana 59937  
Telephone: 406-862-8000

May 25, 2011

*This brochure supplement provides information about James Stack that supplements the Stack Financial Management (SFM) brochure. You should have received a copy of that brochure. Please contact Catherine Hetrick, Chief Compliance Officer, at 406-862-8000 if you did not receive Stack Financial Management's brochure or if you have any questions about the contents of this supplement.*

Additional information about James Stack is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

James B. Stack was born in 1951.

##### **Educational Background:**

Montana State University, BS in Mechanical Engineering, 1974

##### **Business Experience:**

1994 to Current: President and Chief Investment Officer – Stack Financial Management, Inc.

1979 to Current: President and Owner – InvesTech Research, LLC

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

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

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

Registered investment advisers are required to disclose all material facts regarding engagement of a supervised person in any other investment-related business or any business activity that occupies a significant portion of that person's time.

James Stack is the founder and owner of InvesTech Research, LLC, which conducts stock market research and publishes general circulation investment newsletters known as "InvesTech Market Analyst" and "InvesTech Portfolio Strategy." In addition, InvesTech Research periodically publishes an Interim Bulletin, as well as a financial information report entitled "InvesTech Financial Hotline" available to subscribers of the newsletters. Mr. Stack spends approximately one-half of his time in his leadership and management of the firm.

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

Registered investment advisers are required to disclose if someone who is not a client provides additional compensation to its supervised persons for providing advisory services. There is no information that is applicable to this Item.

#### **Item 6 Supervision**

Investment advice provided to clients is determined by the Portfolio Management Team, of which Mr. Stack is a member and Chief Investment Officer. The team meets at least weekly to discuss market

perspectives, securities research and to formulate or update investment strategy. Decisions made by the team are recorded and archived in the meeting notes. As President and Chief Investment Officer, Mr. Stack is not directly supervised. However, Denise Falkner, Director of Operations, is responsible for reviewing investment advice provided to clients by Mr. Stack. All investments made on behalf of clients, including those directed by Mr. Stack, are reviewed quarterly as part of the compliance monitoring process. Ms. Falkner can be reached at 406-862-8000.

## **N. Denise Falkner**

Stack Financial Management, Inc.  
2472 Birch Glen, Suite A  
Whitefish, Montana 59937  
Telephone: 406-862-8000

May 25, 2011

*This brochure supplement provides information about Denise Falkner that supplements the Stack Financial Management (SFM) brochure. Please contact Catherine Hetrick, Chief Compliance Officer, at 406-862-8000 if you have any questions about the contents of this supplement.*

Additional information about Denise Falkner is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

N. Denise Falkner was born in 1969.

#### **Educational Background:**

University of Wisconsin, MBA, 1994

University of California at Davis, BS in Food Science, 1991

#### **Professional certifications or designations:**

Certified Financial Planner, CFP<sup>®</sup>, Certified Financial Planner Board of Standards

*For an explanation of the minimum qualifications required for this designation, see page 21.*

#### **Business Experience:**

2005 to Current: Director of Operations, Stack Financial Management, Inc.

1998 to 2005: Director of Client Services, Stack Financial Management, Inc.

### **Item 3 Disciplinary Information**

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

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

Registered investment advisers are required to disclose all material facts regarding engagement of a supervised person in any other investment-related business or any business activity that occupies a significant portion of that person's time. There is no information that is applicable to this Item.

### **Item 5 Additional Compensation**

Registered investment advisers are required to disclose if someone who is not a client provides additional compensation to its supervised persons for providing advisory services. There is no information that is applicable to this Item.

### **Item 6 Supervision**

Investment advice provided to clients is determined by the Portfolio Management Team, of which Ms. Falkner is a member. The team meets at least weekly to discuss market perspectives, securities research and to formulate or update investment strategy. Decisions made by the team are recorded and archived in the meeting notes. Catherine Hetrick, Chief Compliance Officer, is responsible for supervising Ms. Falkner's advisory activities on behalf of Stack Financial Management. All investments made on behalf of clients, including those directed by Ms. Falkner, are reviewed quarterly as part of the compliance monitoring process. Ms. Hetrick can be reached at 406-862-8000.

## **Catherine M. Hetrick**

Stack Financial Management, Inc.

2472 Birch Glen, Suite A

Whitefish, Montana 59937

Telephone: 406-862-8000

May 25, 2011

*This brochure supplement provides information about Catherine Hetrick that supplements the Stack Financial Management (SFM) brochure. Please contact Catherine Hetrick, Chief Compliance Officer, at 406-862-8000 if you have any questions about the contents of this supplement.*

Additional information about Catherine Hetrick is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

Catherine M. Hetrick was born in 1949.

#### **Educational Background:**

University of Montana, MBA, 1998

University of Colorado, BS in Medical Technology, 1971

#### **Business Experience:**

2007 to Current: Senior Portfolio Manager, Stack Financial Management, Inc.

2004 to 2007: Portfolio Manager, Stack Financial Management, Inc.

1997 to Current: Chief Compliance Officer, Stack Financial Management, Inc.

### **Item 3 Disciplinary Information**

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

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

Registered investment advisers are required to disclose all material facts regarding engagement of a supervised person in any other investment-related business or any business activity that occupies a significant portion of that person's time. There is no information that is applicable to this Item.

### **Item 5 Additional Compensation**

Registered investment advisers are required to disclose if someone who is not a client provides additional compensation to its supervised persons for providing advisory services. There is no information that is applicable to this Item.

### **Item 6 Supervision**

Investment advice provided to clients is determined by the Portfolio Management Team, of which Ms. Hetrick is a member. The team meets at least weekly to discuss market perspectives, securities research and to formulate or update investment strategy. Decisions made by the team are recorded and archived in the meeting notes. Denise Falkner, Director of Operations, is responsible for supervising Ms. Hetrick's advisory activities on behalf of Stack Financial Management. All investments made on behalf of clients, including those directed by Ms. Hetrick, are reviewed quarterly as part of the compliance monitoring process. Ms. Falkner can be reached at 406-862-8000.

**Eric A. Vermulm**  
Stack Financial Management, Inc.  
2472 Birch Glen, Suite A  
Whitefish, Montana 59937  
Telephone: 406-862-8000

May 25, 2011

*This brochure supplement provides information about Eric Vermulm that supplements the Stack Financial Management (SFM) brochure. Please contact Catherine Hetrick, Chief Compliance Officer, at 406-862-8000 if you have any questions about the contents of this supplement.*

Additional information about Eric Vermulm is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 Educational Background and Business Experience**

Eric A. Vermulm was born in 1979.

**Educational Background:**

Montana State University, BS in Business Finance with an Economics minor, 2002

**Professional certifications or designations:**

Chartered Financial Analyst, CFA

*For an explanation of the minimum qualifications required for this designation, see page 21.*

**Business Experience:**

2009 to Current: Senior Portfolio Manager, Stack Financial Management, Inc.

2004 to 2009: Portfolio Manager, Stockman Asset Management, Billings, MT

**Item 3 Disciplinary Information**

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

**Item 4 Other Business Activities**

Registered investment advisers are required to disclose all material facts regarding engagement of a supervised person in any other investment-related business or any business activity that occupies a significant portion of that person's time. There is no information that is applicable to this Item.

**Item 5 Additional Compensation**

Registered investment advisers are required to disclose if someone who is not a client provides additional compensation to its supervised persons for providing advisory services. There is no information that is applicable to this Item.

**Item 6 Supervision**

Investment advice provided to clients is determined by the Portfolio Management Team, of which Mr. Vermulm is a member. The team meets at least weekly to discuss market perspectives, securities research and to formulate or update investment strategy. Decisions made by the team are recorded and archived in the meeting notes. Denise Falkner, Director of Operations, is responsible for supervising Mr. Vermulm's advisory activities on behalf of Stack Financial Management. All investments made on behalf of clients, including those directed by Mr. Vermulm, are reviewed quarterly as part of the compliance monitoring process. Ms. Falkner can be reached at 406-862-8000.

## **Annell M. Danczyk**

Stack Financial Management, Inc.

2472 Birch Glen, Suite A

Whitefish, Montana 59937

Telephone: 406-862-8000

May 25, 2011

*This brochure supplement provides information about Annell Danczyk that supplements the Stack Financial Management (SFM) brochure. Please contact Catherine Hetrick, Chief Compliance Officer, at 406-862-8000 if you have any questions about the contents of this supplement.*

Additional information about Annell Danczyk is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

Annell M. Danczyk was born in 1962.

#### **Educational Background:**

Kansas State University, BS in Chemical Engineering, 1985

#### **Business Experience:**

2008 to Current: Portfolio Manager, Stack Financial Management, Inc.

2003 to 2008: Senior Account Executive, Stack Financial Management, Inc.

### **Item 3 Disciplinary Information**

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

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

Registered investment advisers are required to disclose all material facts regarding engagement of a supervised person in any other investment-related business or any business activity that occupies a significant portion of that person's time. There is no information that is applicable to this Item.

### **Item 5 Additional Compensation**

Registered investment advisers are required to disclose if someone who is not a client provides additional compensation to its supervised persons for providing advisory services. There is no information that is applicable to this Item.

### **Item 6 Supervision**

Investment advice provided to clients is determined by the Portfolio Management Team, of which Ms. Danczyk is a member. The team meets at least weekly to discuss market perspectives, securities research and to formulate or update investment strategy. Decisions made by the team are recorded and archived in the meeting notes. Denise Falkner, Director of Operations, is responsible for supervising Ms. Danczyk's advisory activities on behalf of Stack Financial Management. All investments made on behalf of clients, including those directed by Ms. Danczyk, are reviewed quarterly as part of the compliance monitoring process. Ms. Falkner can be reached at 406-862-8000.

## **Professional Designation Qualifications**

### **Chartered Financial Analyst (CFA)**

The Chartered Financial Analyst (CFA) charter is a professional designation established in 1962 and awarded by the CFA Institute. To earn the CFA charter, candidates must pass three sequential, six-hour examinations over two to four years. The three levels of the CFA Program test a wide range of investment topics, including ethical and professional standards, fixed-income analysis, alternative and derivative investments, and portfolio management and wealth planning. In addition, CFA charter holders must have at least four years of acceptable professional experience in the investment decision-making process and must commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

### **Certified Financial Planner™ (CFP®)**

The CFP® designation is granted by the Certified Financial Planner Board of Standards. To use this mark, individuals must meet education, examination, experience and ethics requirements. The education requirements include an advanced college level course of study related to areas of financial planning as well as a Bachelor's Degree from an accredited U.S. college or university (or foreign equivalent). Focus areas of the study course include planning in insurance and risk management, employee benefits, investments, income tax, retirement and estates. Individuals are required to have three years of full time financial planning related experience (or equivalent) and must pass a comprehensive certification examination. They must also agree to be bound by the CFP Board's Standards of Professional Conduct. Individuals who become certified must complete ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks.