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Firm Brochure

(Part 2A of Form ADV)

This Brochure provides information about the qualifications and business practices of BTS Asset Management, Inc. ("BTS"). If you have any questions about the contents of this Brochure, please contact us at 1-800-343-3040 and/or [info@btsmanagement.com](mailto:info@btsmanagement.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

BTS is registered as an investment adviser with the SEC. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about BTS Asset Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Item 2 discusses Material Changes made to this Brochure and provides Clients and the public a summary of such changes.

*Since our last annual update, dated March 31, 2015, we have made the following interim changes to this Brochure:*

Item 4 – Advisory Business, section B), “Types of Advisory Services,” has been updated to disclose that BTS will no longer pay transaction costs related to the purchase and sale of Exchange Traded Funds on behalf of Clients. Such costs will now be borne by clients for all portfolios where BTS maintains discretion to purchase Exchange Traded Funds.

Item 5 – Fees and Compensation, section A), “Other Fees,” has been updated to reflect the changes made to Item 4, section B), “Types of Advisory Services”, noted directly above in this Item 2. Specifically, Item 5 has been updated to affirmatively disclose that Clients will incur the transaction costs associated with the purchase and sale of Exchange Traded Funds.

*While not material, other interim changes that expand on existing Items or that seek to enhance existing disclosures have been made to this Brochure.*

In the future, we will either send Clients a copy or offer Clients a copy (electronic or hard copy) any time there is a material change to this Brochure.

Our Brochure may always be requested by contacting Joshua Breen, Chief Compliance Officer, at 800-343-3040, or [jbreen@btsmanagement.com](mailto:jbreen@btsmanagement.com). Our Brochure is also available free of charge on our website at ([www.btsmanagement.com](http://www.btsmanagement.com)).

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## **Item 4 – Advisory Business**

### **A) Firm Overview and Description**

BTS Asset Management, Inc. (“BTS”) is a privately held company, founded in 1979 by Vilis Pasts, and is headquartered in Lexington, Massachusetts. Vilis Pasts owns 70% of BTS and Matthew Pasts, 30%. BTS is federally registered with the SEC (Securities and Exchange Commission) as a Registered Investment Adviser. The primary services we offer consist of discretionary and non-discretionary asset allocation advisory portfolios (“Portfolios”). The services that BTS offers are described in greater detail in Item 4(B) below, but we also provide an overview here:

BTS primarily provides continuous and supervisory advisory control over the assets designated to BTS pursuant to written advisory agreements with BTS Clients, including registered investment companies where BTS has been designated the investment adviser. Through these agreements, BTS issues model investment advice using quantitative and fundamental analysis. BTS utilizes several proprietary and technical indicators as part of the ongoing daily analysis and review of BTS portfolios.

Because of the discretionary authority that we have, resulting exchanges among mutual funds, variable annuity sub-accounts and Exchange Traded Funds (“Fund(s)”) are performed without prior notice to a Client. In limited situations, we provide our discretionary exchange signals to a Client’s financial representative who is responsible for executing and processing the trade instructions with the Client’s custodian. In these situations, BTS still maintains discretion and supervisory control over the assets and includes the accounts in its ongoing supervisory and monitoring procedures.

In addition to the services described above, we also enter into separate arrangements with unaffiliated entities or financial professionals where we provide them with certain model trading instructions. We refer to these arrangements generally and throughout this Brochure as either “Wrap Fee Programs” or “sub-advisory” relationships, depending upon the nature of the agreement that is in place. For Wrap Fee Programs, we refer to the unaffiliated entity or financial professional as a “Wrap Sponsor,” and in the case of sub-advisory relationships, we refer to the unaffiliated entity or financial professional as “Advisors.”

In the case of Wrap Fee Programs, depending upon the nature of the relationship and the terms of the agreement, the Wrap Sponsor will maintain (or designate) a certain level of discretionary authority over total Wrap Fee Program assets or Wrap Fee Program account level assets. In this type of arrangement, the Wrap Sponsor chooses either to reject or accept our instructions, in whole or in part, for use in their Wrap Fee Program accounts. In these situations, BTS is providing non-discretionary advice to the Wrap Sponsor.

For other Wrap Programs, however, the exercise of discretionary authority of the Wrap Sponsor is limited by contract to performing administrative and/or trade order implementation duties. In such situations, BTS maintains discretion over program assets under the BTS models inside the Wrap Fee Program. The Wrap Sponsor requires BTS to continuously review and supervise the model instructions that we provide in order to ensure that the model is accurate and complete. When BTS, in its discretion determines the model requires amending or modifying, the Wrap Sponsor requires BTS to adjust the model. In these situations, the Wrap Sponsor agrees that it will begin processing our instructions on the day that we issue the advice but note that circumstances outside of their control may delay implementation beyond one day. The same applies to BTS. Unless due to circumstances outside of BTS’ control, if BTS fails to make timely discretionary changes to BTS’ model, BTS may be contractually responsible for trade losses incurred by the Wrap Sponsor and/or Wrap Fee Program accounts.

In sub-advisory relationships, investors impacted by our services are not considered clients of BTS. Instead, these investors’ accounts are continuously supervised by an unaffiliated Advisor that retains BTS to provide non-discretionary investment advice. In these relationships, BTS provides consulting services only and issues what we call “buy” and “sell” instructions to the Advisor. In these situations, BTS does not have ongoing supervisory and management responsibilities over these assets and the Advisor retains discretion and the authority to modify, adjust or reject our trade instructions.

## **B) Types of Advisory Services**

### **TACTICAL ASSET ALLOCATION PORTFOLIOS**

These Portfolios are tailored to a Client's specified investment requests by selecting one or more Funds to be invested. The purpose of these Portfolios is to attempt to provide downside protection in a falling market and appreciation possibilities in a rising market, by exchanging investments in the Funds selected by the Client upon buy and sell signals generated by BTS. Each portfolio maintains both its defensive and aggressive Funds in the same family of Funds or sub-accounts within the same variable annuity.

Tactical Asset Allocation portfolios offered by BTS include:

High Yield Bond Fund Portfolio: This portfolio utilizes a defensive (money market) Fund and aggressive (high yield bond) Fund.

Bond Asset Allocation Portfolio: This Portfolio utilizes a defensive (money market) Fund and two aggressive (government and high yield bond) Funds.

U.S. Government/Investment Grade Bond Fund Portfolio: This portfolio utilizes a defensive (money market) Fund and an aggressive (U.S. Government or investment grade bond) Fund

Municipal Bond Fund Portfolio: This portfolio utilizes a defensive (money market) Fund and an aggressive (municipal or tax-exempt bond) Fund.

Seasonality Portfolio: This portfolio employs a seasonal market timing strategy. Client and their financial representative pick a defensive (money market) Fund that will be held during historically unfavorable market periods and an aggressive (stock) Fund(s) that will be held during historically favorable market periods with the goal of providing downside protection during unfavorable market periods and appreciation possibilities during favorable market periods by exchanging between the types of funds as signals to buy close to a favorable market period and sell close to an unfavorable market period are generated. The historically favorable market period is considered to be approximately November through April and the historically unfavorable market period is considered to be approximately May through October. BTS will not issue buy or sell signals on any pre-selected dates, but will issue buy and sell signals near favorable and unfavorable market periods as the BTS's investment models dictate. BTS reserves the right to issue buy or sell signals outside of historically favorable and unfavorable periods when economic indicators or market situations develop where BTS determines it to be necessary to issue such buy or sell signals.

Seasonality/High Yield Portfolio: This portfolio is a combination of the Seasonality Portfolio and the High Yield Portfolio, as discussed above. During the favorable market period, Client's assets are invested in accordance with the Seasonality Portfolio. However, during the unfavorable market period, Client's assets are invested in accordance with the High Yield Portfolio. If, due to market conditions, BTS issues a sell signal during the historically favorable period, Client's assets may be invested in accordance with the High Yield Portfolio for the remainder of the historically favorable period.

Seasonality/Bond Asset Allocation Portfolio: This portfolio is a combination of the Seasonality Portfolio and the Bond Asset Allocation Portfolio, as discussed above. During the favorable market period, Client's assets are invested in accordance with the Seasonality Portfolio. However, during the unfavorable market period, Client's assets are invested in accordance with the Bond Asset Allocation Portfolio. If due to market conditions BTS issues a sell signal during the historically favorable period, Client's assets may be invested in accordance with the Bond Asset Allocation Portfolio for the remainder of the historically favorable period.

"Select" Portfolios: Some Portfolios listed above have "Select" versions. "Select" Portfolios are designed to allocate Client's assets among Funds, and possibly exchange-traded funds, selected by BTS. The number of Funds selected and the allocation percentages are determined by BTS. The selection of Funds is performed in accordance with the Portfolio selected by the Client.

“ETF” Portfolios: Some Portfolios listed above will invest in exchange-traded funds (“ETFs”). The ETF Portfolios are designed to allocate Client’s assets among ETFs selected by BTS based on BTS’ buy and sell signals. The number of ETFs selected and the allocation percentages shall be determined by BTS. The selection of ETFs will be performed in accordance with the Portfolio selected by Client. Irrespective of the portfolio type, Client’s whose portfolios grant BTS discretion to effect transactions in ETFs on behalf of Clients shall be responsible for and pay all transaction fees for the purchase and sale of ETFs. It is also important to note that due to the way ETFs are bought, sold and priced, ETF Portfolios and portfolios holding ETFs may be more volatile than similar portfolios that are exclusively invested in mutual funds, which are priced at the end of the day.

“Plus” Portfolios: Some Portfolios listed above also have “Plus” versions. “Plus” Portfolios are designed to give BTS the option to invest Client’s assets in a high yield inverse Fund when BTS believes that high yields will decrease in value and issues a sell signal.

Rydex Funds Tactical Portfolios: Some Portfolios listed above invest exclusively in Rydex mutual funds with assets custodied at Trust Company of America. The intent of the Rydex Funds Tactical Portfolios is not to select funds but to allocate 100% to a bond sector or money market fund based on BTS’s buy and sell signals. If a Rydex Fund uses leverage, BTS may make a lower allocation in order to avoid leverage. These Portfolios invest in Rydex mutual funds selected by BTS, based on our buy and sell signals, and the Portfolio selected by the Client. At BTS’s discretion, BTS may use non-Rydex money market funds during defensive periods. High Yield and Government bond mutual fund options at Rydex are typically limited.

## **STRATEGIC ASSET ALLOCATION PORTFOLIOS**

The Strategic Asset Allocation Portfolios are investment portfolios allocating assets among several mutual funds, and possibly exchange-traded funds, and asset categories utilizing a variety of mutual fund and variable annuity companies. After establishing the initial asset allocation mix, Client’s account will be reallocated, or rebalanced if allocation percentages remain the same, on a quarterly basis within the first week of January, April, July, and October, in accordance with BTS’s then current asset allocation recommendations. BTS, at its discretion, incorporates third party research and recommendations into its own analysis for determining percentages. At BTS’s discretion, Client’s account will be reallocated at other times as required based on BTS’ ongoing monitoring of the Portfolios and revised asset allocation recommendations.

Under the following Strategic Asset Allocation Portfolios, BTS selects the Funds to be used in the Portfolio:

Alpha SAA Income: Portfolio is designed and managed with the dual goal of providing a higher level of income while preserving capital and maintaining the possibility for moderate appreciation.

Alpha SAA Conservative: Portfolio is designed and managed with the goal of preservation of capital and inflation protection.

Alpha SAA Moderate: Portfolio is designed and managed with the goal of minimizing losses while maintaining growth opportunities.

Alpha SAA Growth & Income: Portfolio is designed and managed with the goal of capital appreciation and a moderate level of current income.

Alpha SAA Growth: Portfolio is designed and managed with the goal of long term capital appreciation.

Alpha SAA Aggressive Growth: Portfolio is designed and managed with the goal of capital appreciation with little concern about short-term fluctuations in value.

American Funds Conservative: The American Funds Conservative portfolio is designed and managed with the goal of preservation of capital and inflation protection using American Funds mutual funds selected by BTS.

American Funds Moderate: The American Funds Moderate portfolio is designed and managed with the goal of minimizing losses while maintaining growth opportunities using American Funds mutual funds selected by BTS.

American Funds Growth: The American Funds Growth portfolio is designed and managed with the goal of long-term capital appreciation using American Funds mutual funds selected by BTS.

American Funds Aggressive Growth: The American Funds Aggressive Growth portfolio is designed and managed with the goal of capital appreciation with little concern about short-term fluctuations in value using American Funds mutual funds selected by BTS.

Under the following Strategic Asset Allocation Portfolios, the Client selects the Funds to be used in the Portfolio:

Conservative: Portfolio is designed and managed with the goal of preservation of capital and inflation protection.

Moderate: Portfolio is designed and managed with the goal of minimizing losses while maintaining growth opportunities.

Growth: Portfolio is designed and managed with the goal of long term capital appreciation.

Aggressive Growth: Portfolio is designed and managed with the goal of capital appreciation with little concern about short-term fluctuations in value.

### **MULTI-STRATEGY PORTFOLIOS**

The Multi-Strategy Portfolios are investment portfolios allocating assets among several Funds, and possibly exchange-traded funds, using a combination of investment styles, including, but not limited to, Strategic Asset Allocation, Tactical Asset Allocation, and variations thereof, at the sole discretion of BTS. The Portfolio is an investment advisory service designed to allocate Client's assets among Funds selected by BTS in accordance with the Client's investment objective as indicated below. After establishing the initial Portfolio allocations, Client's account will be reallocated, or rebalanced if allocation percentages remain the same, on a quarterly basis within the first week of January, April, July, and October, in accordance with the BTS's then current asset allocation recommendations. In addition, Client's account will have occasional allocation changes as BTS makes buy and sell decisions based on market conditions and Advisor's underlying investment strategies. At BTS's discretion, Client's account will be reallocated at other times as required based on the BTS's revised asset allocation recommendations.

***The following Portfolios are available based on Client's investment objective and risk tolerance:***

Conservative: Portfolio is designed and managed with the goal of preservation of capital and inflation protection.

Moderate: Portfolio is designed and managed with the goal of minimizing losses while maintaining growth opportunities.

Growth: Portfolio is designed and managed with the goal of long term capital appreciation.

Aggressive Growth: Portfolio is designed and managed with the goal of capital appreciation with little concern about short-term fluctuations in value.

### **CUSTOM MULTI-STRATEGY PORTFOLIOS**

The Custom Multi-Strategy Portfolios are investment portfolios allocating assets among several Funds, and possibly exchange-traded funds, using a combination of investment styles, including, but not limited to, Strategic Asset Allocation, Tactical Asset Allocation, and variations thereof. Client selects which portfolios to utilize in their Custom Multi-Strategy Portfolio. Client must select one Strategic Asset Allocation portfolio and one to two Tactical Asset Allocation portfolios. The Portfolio is an investment advisory service designed to allocate Client's assets among Funds selected by BTS in accordance with the Client's selection of portfolios.

After establishing the initial portfolio allocations, Client's account will be reallocated, or rebalanced if allocation percentages remain the same, on a quarterly basis within the first week of January, April, July, and October, in accordance with the BTS's then current asset allocation recommendations. In addition, Client's account will have occasional allocation changes as BTS makes buy and sell decisions based on market conditions and BTS's underlying investment strategies. At BTS's discretion, Client's account will be reallocated at other times as required based on the BTS's revised asset allocation recommendations.

### **HEDGED INCOME PORTFOLIO**

The Hedged Income Portfolio is an investment portfolio allocating assets among several Funds, and possibly exchange-traded funds, selected by BTS. Approximately 30% of assets will remain allocated to high yield Funds, approximately 30% will remain allocated to total return bond Funds, approximately 30% will be allocated to either high yield Funds or inverse high yield Funds based on BTS's buy and sell signals on the high yield bond sector, and approximately 10% will be allocated to either government Funds or inverse government Funds based on BTS's buy and sell signals on the U.S. government bond sector. These allocations may be adjusted at BTS's discretion and BTS may, pursuant to its preservation of capital mandate, take a more defensive approach and allocate Client assets to certain money market funds. Client accounts shall be rebalanced or reallocated to the above allocations on a periodic basis at BTS's discretion.

## OTHER ACCOUNTS

### Investment Companies:

BTS is the investment adviser to the **BTS Tactical Fixed Income Fund ("TFI Fund")**. The TFI Fund is a diversified series of the Northern Lights Fund Trust and an Investment Company registered under the Investment Company Act of 1940. The TFI Fund has been involved in two material reorganizations, including initially being converted into a registered Investment Company from a private fund; and, most recently in December of 2014, acquiring all of the assets and liabilities of the BTS Bond Asset Allocation Fund, a mutual fund previously managed by BTS. Under normal circumstances, the TFI Fund invests (long or short) at least 80% of its assets in fixed income securities of domestic and foreign issuers or counterparties. The TFI Fund defines fixed income securities to include: (i) bills, (ii) notes, (iii) debentures, (iv) bonds, (v) mortgage-backed securities ("MBS"), (vi) asset-backed securities ("ABS"), (vii) preferred stocks, (viii) loan participation interests, (ix) any other debt or debt-related securities of any maturities, whether issued by U.S. or non-U.S. governments, agencies or instrumentalities thereof or corporate entities, and having fixed, variable, floating or inverse floating rates, (x) fixed income derivatives including options, financial futures, options on futures and swaps, (xi) other evidences of indebtedness; and (xii) other investment companies that invest primarily in fixed income securities. The 80% investment policy can be changed without shareholder approval. BTS will, pursuant to its preservation of capital mandate and to the extent permitted by prospectus, take a more defensive approach and allocate up to 100% of the TFI Fund's assets to cash and cash equivalents, including money market mutual funds.

As part of the tactical strategy and portfolios, certain BTS clients whose assets are held at the Trust Company of America will be invested in BTS' affiliated mutual fund, the TFI Fund. BTS will allocate a percentage of the clients account towards the TFI Fund. The percentages change and are rebalanced based upon current market conditions. As an example, a Client may hold 10%, rebalance to 15% and then 0%. Clients of BTS subject to this arrangement give their express consent and are provided up front disclosure in a BTS Client Agreement. A conflict of interest exists in this scenario as the TFI Fund is affiliated with BTS. To manage this conflict, Clients with assets invested in the TFI Fund will receive a credit (offset) against the advisory fee otherwise payable to BTS under the BTS Client Agreement for the advisory fees paid to BTS from the TFI Fund. The effect of this credit will be to reduce the amount of the advisory fee payable directly to BTS by the Client per this Agreement, but the credit will not affect the amount received by BTS for indirectly providing services to the Client since BTS retains the fees paid to us by the TFI Fund.

BTS is the investment adviser to the **BTS Tactical Fixed Income VIT Fund ("TFI VIT Fund")**. The TFI VIT Fund is a diversified series of the Northern Lights Variable Trust and an Investment Company registered under the Investment Company Act of 1940. Under normal circumstances, the TFI VIT Fund invests at least 80% of its assets in fixed income securities. The 80% investment policy can be changed without shareholder approval. BTS will, pursuant to its preservation of capital mandate and to the extent permitted by prospectus, take a more defensive approach and allocate up to 100% of the TFI Fund's assets to cash and cash equivalents, including money market mutual funds.

Collectively, the TFI Fund and the TFI VIT Fund are referred to as the "BTS Funds" throughout the remainder of this Brochure. Please read the prospectuses for the BTS Funds for a full description of the Funds' investment objectives, risks, charges, fees, expenses and minimum investment amounts.

### Sub-Advisory:

As described in the overview in Item 4 above, we enter into certain agreements with unaffiliated entities and financial professionals ("Advisors") whereby we provide model trading instructions ("buy" and "sell" signals) to the Advisors for their use in their Clients' portfolios. Under the terms of these arrangements, we act as a sub-advisor, providing our model trade instructions as consultation services to the Advisor for a negotiable fee based upon the total assets under management of the Advisor impacted by our advice. BTS does not execute any exchanges under these agreements nor does BTS have a direct relationship with the Clients of the Advisors that may be directly affected by the services provided under the agreement. BTS therefore is unable to assess and ensure that our recommendations remain appropriate for individual Clients of Advisors that retain our services. Upon issuing new advisory recommendations, BTS notifies the Advisor of new recommendations in the form and medium agreed upon and the recipient of the recommendations exercises ultimate discretion in determining whether to implement the BTS instructions as communicated. Because BTS does not exercise ongoing discretion and supervisory control over these arrangements,



allocation percentages and Fund selection may differ from what may be recommended, resulting in potentially different overall performance and transactions costs than BTS Clients in the same Portfolio.

### **C) Tailored Relationships**

BTS enters into advisory agreements with individual Clients and provides provides continuous and regular supervisory or management services to each individual BTS Client account. BTS processes and ensures trade instructions are properly implemented, monitors each account and treats each BTS Client using a BTS model portfolio as a unique and individual client. BTS will select funds to be used for Clients in Select Portfolios, and Clients are permitted to give specific restrictions and instructions on Select portfolios. BTS does not make “buy” or “sell” decisions regarding individual securities not part of BTS’ model portfolios. This means that, while BTS treats Client as an individual Client, BTS Clients using the same BTS Portfolio will receive the same portfolio level discretionary investment advice. The exact funds used will differ, but BTS will not give discretionary advice to individual Clients if that advice is not consistent with the BTS portfolio strategy.

BTS offers specific Asset Allocation Portfolios for Clients to choose from and the advice and management services we provide are generally restricted to the terms and objectives of the offered Portfolios. A prospective BTS Client, with the assistance of the financial representative recommending our services to the Client, work together to select a BTS Portfolio. The Client and their representative do this after evaluation of the Portfolio’s risks, charges, fees and expenses and whether they are consistent with the Client’s investment objectives and risk tolerance. BTS then reviews each Client’s risk and financial profile during the application review stage to determine whether the chosen BTS portfolio is appropriate. After accepting an application and reviewing a Client’s profile, BTS monitors and manages each account and the model portfolios on a routine basis.

In order to ensure prospective Client’s and their representative have the information necessary to assess whether BTS’ Portfolios are appropriate, BTS provides tools prior to the on-boarding stage to the prospective Client and their financial representative to use when reviewing whether BTS’ advisory services are suitable and meet the prospective Client’s investment objectives and risk profile.

As noted above, investment restrictions for “Select” Portfolios may be made and they must be provided to BTS in writing. Because of the nature of the model portfolios that we provide, certain restrictions and requirements may prevent BTS from being able to establish a relationship with the prospective Client. As explained right above, this is because the restriction may prevent BTS from managing the account using the strategy of the Portfolio.

### **D) Wrap Fee Programs**

As described in the overview in Item 4 above, BTS participates in a third party capacity in certain Wrap Fee Programs sponsored by unaffiliated broker-dealers, banks or other financial institutions (“Wrap Sponsors”). Pursuant to written agreements between BTS and Wrap Sponsors, BTS provides model investment advisory services to the Wrap Sponsor in a format acceptable to the Wrap Sponsor. The terms and conditions of this relationship are determined by each Wrap Sponsor and may differ. Depending upon the nature of the relationship and the terms of the agreement, the Wrap Sponsor maintains (or designates) a certain level of discretionary authority over program or account assets and chooses either to reject or accept our model investment advice, in whole or in part, for use in their program accounts. In these situations, BTS is providing non-discretionary advice to the Wrap Sponsor.

For other Wrap Programs, however, the exercise of discretionary authority of the Wrap Sponsor is limited to performing specified functions, including administrative and/or trade order implementation duties pursuant to the direction of BTS. In such situations, BTS maintains discretion over program assets under the BTS models as the Wrap Sponsor requires BTS to continuously review and supervise the model instructions that we provide in order to ensure that the model is accurate and complete. When BTS, in its discretion determines the model requires amending or modifying, the Wrap Sponsor requires BTS to adjust the model. In these situations, the Wrap Sponsor agrees that it will begin processing our instructions over program assets on the day that we issue the instructions but note that circumstances outside of their control may delay implementation beyond one day. Unless due to circumstances outside the control of BTS, if BTS fails to make timely discretionary changes to BTS’ model, BTS is contractually responsible for trade losses incurred by the Wrap Sponsor and/or Wrap Fee Program account assets affected.

Depending upon the Wrap Sponsor and the agreement in place between BTS and the Wrap Sponsor, BTS will provide discretionary investment advice on the portion of assets delegated to BTS. This power and authority is granted by a client in the Wrap Sponsor's agreement. BTS will provide model trading instructions to the Wrap Sponsor or a third party as directed by the Wrap Sponsor who will be responsible for executing BTS's recommended trades. BTS has no authority or responsibility for transaction execution. Because BTS does not have a direct relationship with the clients impacted by our services under these Wrap Programs, BTS is unable to assess whether our services are appropriate for each individual client. Whether our available models are appropriate and remain appropriate is a matter to be determined by the Wrap Sponsor, the client and/or the client's financial representative, if applicable.

In order to access our model advisory services through a Wrap Sponsor, a Wrap Program client signs an agreement with the Wrap Sponsor. Through this agreement the Wrap Sponsor and/or the Client's financial representative obtains the information necessary to determine whether BTS' model portfolio is appropriate for the client. BTS exercised control over the model and assesses whether the model is appropriate for the Wrap Fee Program. A comprehensive fee (a "Wrap Fee") generally includes trade execution, consulting, and custodial services performed or arranged by the Wrap Sponsor and the fee for BTS to provide discretionary model investment advice. BTS does not calculate the Wrap Fee Program client fees.

The Wrap Sponsor or financial representative is required to provide the client inside the program with a copy of BTS's disclosure brochure. BTS does not have a direct relationship with the individual clients inside the model and does not provide individual disclosure. For a complete description of the Wrap Sponsor refer to the Wrap Sponsor's Appendix 1 of Form ADV Part 2A and other disclosures.

#### **E) Managed Assets**

As of 3/30/2016, BTS managed approximately \$1,372,616,782 in discretionary assets for approximately 9,620 accounts. All of the assets are managed on a discretionary basis and include BTS separately managed accounts, the BTS Funds and Wrap Sponsor accounts where BTS exercises discretion. This number does not include 1) assets that are under our advisement through sub-advisory relationships where BTS provides only model advice to unaffiliated entities that expressly limit BTS' discretion, or 2) assets that are considered Wrap Program assets where the Wrap Sponsor expressly limits BTS' discretion.

### **Item 5 - Fees and Compensation**

#### **A) Fee Schedules**

Fee schedule for Tactical Asset Allocation Portfolios: Clients pay BTS an annual management fee calculated in accordance with the fee schedules below:

<u>Amount under Management</u>	<u>Advisory Fee</u>	<u>Representative Fee</u>	<b>Maximum Annual Management Fee</b>
First: <\$100,000	1.25%		
Next: \$100,000 - \$249,999	1.00%	0% - 1.5%	<b>2.75%</b>
Next: \$250,000 - \$499,999	.75%		
Next: \$500,000 - \$999,999	.50%		
Next: \$1,000,000 +	.40%		

Fee Schedule for Strategic Asset Allocation Portfolios: Clients pay BTS an annual management fee calculated in accordance with the fee schedule below:

<u>Amount under Management</u>	<u>Advisory Fee</u>	<u>Representative Fee</u>	<b>Maximum Annual Management Fee</b>
First: <\$250,000	.60%		
Next: \$250,000 - \$749,999	.40%	0% - 1.5%	<b>2.10%</b>
Next: \$750,000 +	.30%		

Fee Schedule for the Multi-Strategy Portfolios: Clients pay BTS an annual management fee calculated in accordance with the fee schedule below:

<u>Assets Under Management</u>	<u>Advisory Fee</u>	<u>Representative Fee</u>	<u>Maximum Annual Management Fee</u>
First: <\$100,000	1.00%		
Next: \$100,000 - \$249,999	0.85%	0%-1.5%	<b>2.50%</b>
Next: \$250,000 - \$499,999	0.75%		
Next: \$500,000 - \$999,999	0.50%		
Next: >\$1 Million	0.40%		

Fee Schedule for the Hedged Income Portfolio: Clients pay BTS an annual management fee calculated in accordance with the fee schedule below:

<u>Assets Under Management</u>	<u>Advisory Fee</u>	<u>Representative Fee</u>	<u>Maximum Annual Management Fee</u>
First: <\$250,000	.85%		
Next: \$250,000 - \$499,999	.75%	0%-1.5%	<b>2.35%</b>
Next: \$500,000 - \$999,999	.50%		
Next: \$1 Million +	.40%		

The Fee Schedules noted above reflect the current structure and do not necessarily reflect the structure applied to Clients who engaged BTS prior to 2006. Under certain circumstances, BTS agrees to charge Clients of certain sales representatives and/or broker/dealers referring BTS to their Client less than its customary rate because of the volume of business referred to, or promised to be referred to BTS by such sales representatives or broker/dealers. Fees charged to pension plans, retirement plans, and institutional Clients are negotiable. BTS reserves the right to negotiate fees where there are multiple accounts for one person or within the same household which may, when consolidated, amount to over a breakpoint. Fees vary depending on the Client's financial representative. As a concession to their Clients, some third-party solicitors select a reduced representative fee. Because of the fee structure, fees will differ for each BTS client. As an example, two BTS Clients with the same size account and using the same BTS Portfolio may have materially different fees charged for the same or similar services received by BTS. Due to the different fee levels, Client's assessed higher fees will have performance that will be lower than BTS Client's with lower fees. In addition, BTS may have agreements with certain broker/dealers or registered investment advisors to manage Client accounts through the broker/dealers' or registered investment advisors' custodian at a reduced advisory fee. In addition, generally the Advisory Fee portion of the Annual Management Fee (which consists of a Representative's Fee plus the Advisory Fee) that is charged to the Client for BTS Portfolios is the same whether the Client comes to BTS directly or is handled through a sales representative. Nevertheless, except in very limited circumstances, BTS does not enter into relationships with investors that are not referred to BTS by financial representative. Therefore, the Annual Management Fee constitutes the total fee charged by BTS. The advisory fees charged by BTS may be higher than that normally charged in the industry and it is possible that the same, similar or significantly more extensive services may be available from other advisors at lower rates. Clients may purchase Funds directly without using BTS's Portfolios.

### BTS Funds

Pursuant to an advisory agreement between the TFI Fund and BTS, BTS is entitled to receive, on a monthly basis, an annual advisory fee equal to 1.00% of the TFI Fund's average daily net assets. Pursuant to an advisory agreement between the TFI VIT Fund and BTS, BTS is entitled to receive, on a monthly basis, an annual advisory fee equal to 0.85% of the TFI VIT Fund's average daily net assets. For additional information about the fees charges and expenses of the BTS Funds, please read the prospectuses for the BTS Funds.

### Wrap Fee Programs

Per written agreements between BTS and Wrap Sponsors, BTS receives an annual fee of up to 0.85% of the market value of the assets its investment advice impacts. The exact fee calculation and timing of the fee to be charged will be determined by the Wrap Sponsor. The Wrap Sponsor will calculate and deduct the appropriate fees from the wrap accounts and remits those fees to BTS. For a complete description of the Wrap Sponsors' fees refer to the Wrap Sponsor's Appendix 1 of Form ADV Part 2A.

## Subadvisory Agreements

Per written sub-advisory agreements between BTS and Advisors, BTS receives an annual fee of up to 0.80% of the market value of the assets it provides services on. The exact fee calculation and timing of the fee to be charged are negotiable. The Advisor will calculate the appropriate fees and remit those fees to BTS.

### **B) FEE PAYMENTS**

Client accounts whose assets are held and maintained by a custodian other than Trust Company of America are usually billed annually. The annual fee for the first year is based on the total principal amount initially invested upon managing the account. The fee for subsequent years is based on the market value of Client's account(s) determined approximately 8 to 12 weeks prior to the renewal date. The fee for additional amounts invested is prorated for the remaining portion of the contractual year of deposit. Fees are payable (a) for the first year upon execution of the agreement, (b) for additional amounts when deposited, and (c) by each renewal date. A new contract date is established for another one-year period if a Client converts during an existing contract year to a Portfolio that has a different fee schedule. The balance of the management fee not yet earned by BTS is used towards the management fee for the new one-year contract period. The unearned management fee of a converting account is prorated. A management fee for the new contract year, minus the unearned management fee, is due upon conversion. If a conversion to a portfolio with a lower fee schedule results in an overpayment, then BTS shall issue a refund to the Client.

Client accounts whose assets are held and maintained by Trust Company of America as the custodian are billed quarterly. Quarterly fees are available for certain fund or variable annuity companies. The initial fee for the first calendar quarter is based on the total principal amount initially invested. Accounts established in the middle of a quarter are prorated for the remainder of the calendar quarter. The fee for subsequent quarters is based on the market value of Client's account(s) determined based on fund values obtained approximately during the last week of the calendar quarter, for the upcoming quarter. The fee for additional amounts invested is prorated for the remaining portion of the calendar quarter of deposit. Fees are payable (a) for the first quarter upon execution of the management agreement, (b) for additional amounts when deposited, and (c) by each calendar quarter. The quarterly fee will be calculated by the Advisor and deducted according to the calculation by the custodian from Client's cash or money market fund, or an alternative fund that is associated with this Agreement. If the Client converts to a portfolio that has a different fee schedule during the calendar quarter, then the balance of the management fee not yet earned by BTS is used towards the management fee for the remainder of the calendar quarter. The unearned management fee of a converting account is prorated. A management fee for the remainder of the calendar quarter, minus the unearned management fee, is due upon conversion. If a conversion to a portfolio with a lower fee schedule results in an overpayment, then BTS issues a refund to the Client.

As part of the tactical strategy and portfolios, certain BTS clients whose assets are held at the Trust Company of America will be invested in BTS' affiliated mutual fund, the TFI Fund. BTS will allocate a percentage of the clients account towards the TFI Fund. The percentages change and are rebalanced based upon current market conditions. As an example, a Client may hold 10%, rebalance to 15% and then 0%. Clients of BTS subject to this arrangement give their express consent and are provided up front disclosure in a BTS Client Agreement. A conflict of interest exists in this scenario as the TFI Fund is affiliated with BTS. To manage this conflict, Clients with assets invested in the TFI Fund will receive a credit (offset) against the advisory fee otherwise payable to BTS under the BTS Client Agreement for the advisory fees paid to BTS from the TFI Fund. The effect of this credit will be to reduce the amount of the advisory fee payable directly to BTS by the Client per this Agreement, but the credit will not affect the amount received by BTS for indirectly providing services to the Client since BTS retains the fees paid to us by the TFI Fund.

### **C) OTHER FEES**

In addition to the advisory fees paid to BTS, Clients will also pay certain transaction fees and expenses at the Fund level (e.g., advisory fees, shareholder service fees, etc.) not part of the BTS advisory fee and will incur additional charges when purchasing or redeeming Fund shares, including third party transaction costs associated with the purchase and sale of Exchange Traded Funds in Client accounts. Not all Clients in the same Portfolio will pay identical transaction fees and expenses. In addition, some Funds have 30 to 90 day holding periods, and will charge an early redemption fee if a

sell signal is issued within the required holding period. Early redemption fees can occur due to the timing of BTS signals, withdrawals by the Client, and from BTS redeeming advisory fees.

While BTS attempts to inform the Client's financial representative of Funds that charge early redemption fees, it is the responsibility of the Client and their financial representative to determine if early redemptions fees may occur, and to attempt to prevent them. BTS shall have no responsibility for early redemption fees that occur from the normal management of Client's account. Financial representatives are furnished with specific Fund restrictions upon request. BTS provides no guarantee of exchange execution on the signal receipt date. While BTS attempts to move all Clients within 24 hours of a signal, a delay of up to five business days could occur because of factors beyond the control of BTS. Such a delay could significantly affect performance. BTS assumes no responsibility for losses resulting from such delays.

Upon Fund exchanges, an exchange fee may be charged by the custodian of each Fund which is deducted from the proceeds of liquidation before reinvestment. Client may incur a \$50 service charge if Client changes from one BTS Portfolio to another at any time other than at renewal. In selecting the Funds, Client should review carefully each prospectus for possible Fund restrictions on exchanges as BTS assumes no responsibility for potential or actual losses resulting from any such restrictions. In addition, Trust Company of America ("TCA") charges Clients the following special service fees for items considered outside the normal course of managing Client's account, and such fee amounts are subject to change at TCA's discretion:

- Check Distribution: \$20 per occurrence
- Transfer/Termination Fee: \$50 + \$25 per asset (max \$250) for in-kind transfers
- Wired Funds: \$25 per wire
- Returned Check: \$35 per occurrence
- Cancelled Check: \$20 per occurrence
- Non-traditional Asset Custody: \$100 per asset per account annually
- 1035 Exchange: \$250 per exchange
- Next-Day Mail Service: \$25 per request
- SoloK Annual Maintenance Fee: \$50 quarterly
- SoloK 5500 EZ Filing: \$125 per filing
- SoloK Loan Fee: \$100 per loan
- Brokerage Fees: \$.01 per share (*\$.0075 to broker + \$.0025 to ConvergeX*)
- Off-Signal Trading Fee: \$.0045 to ConvergeX

Please see the section entitled "Brokerage Practices" for more information.

#### **D) Termination and Refunds**

The management agreement between the Client and BTS remains in effect until terminated by either party upon giving written notice at any time during the term of the agreement. Either party may terminate the agreement for any reason. BTS may terminate upon written notice to a Client. Terminations are usually the result of BTS not being able to manage the account due to fund restrictions and closures or due to a Client no longer being represented by a financial representative. BTS is authorized to compensate. In such cases, BTS sends affected Clients notice of impending termination and options to consider and select if they want to continue management prior to the termination date. If no such options exist, management is terminated immediately upon written notice.

Client accounts shall be terminated as of the date BTS receives written notice from the Client and specified by the Client. If the Client requests termination of the agreement within five business days of execution of the Client Agreement, the management and representative fees will be refunded in full. In the event of termination by a Client during the first year or quarter of the agreement (other than within five business days following execution), at the discretion of BTS the first \$200 of the fee may not be refunded in order to cover start-up costs associated with establishing the Client's account. The annual or quarterly fee (less \$200 if the termination occurs during the first year or quarter of Client's account) shall be refunded on a prorated basis. Unless the advisory fee is received by each renewal date, at the discretion of BTS, the management agreement may automatically terminate.

Upon termination of the agreement for any reason, BTS has seven business days to implement such termination. Due to delays by the Funds processing BTS's instructions to remove Clients from the trading lists, if a signal is called during the period, the

Client's account(s) may or may not be moved into the signaled position. BTS assumes no responsibility for losses resulting from such delay. However, in the event that a Client suffers a loss because the termination of the Client's account is delayed by BTS due to its negligence or malfeasance, BTS will reimburse the Client for such loss.

Upon final termination of the agreement for any reason, BTS will have neither the authority nor obligation to provide any additional advice, including tax, legal or investment advice related to any matter pertaining to the assets previously managed by BTS pursuant to the cancelled agreement.

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

BTS does not accept performance based fees. Performance based fee arrangements create an incentive for BTS to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Should BTS begin to accept performance based fees, BTS will implement procedures designed to ensure that all Clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among Clients.

## **Item 7 – Types of Clients**

Using the Portfolios and our product availability described throughout this Brochure, BTS provides portfolio management services directly to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, foundations, endowments, registered investment companies and trust portfolios. BTS also provides its services to unaffiliated entities that use the services for the benefit of their own clients.

For Clients with a direct relationship with BTS, BTS has certain account minimum requirements for opening accounts.

### **Minimum Investment Amounts for BTS Portfolios**

BTS Tactical Asset Allocation Portfolio accounts require an initial minimum of \$25,000.

BTS Strategic Asset Allocation Portfolio accounts require an initial minimum of \$25,000.

BTS Multi-Strategy Portfolios accounts require an initial minimum of \$100,000 for accounts held at TCA, \$25,000 for variable annuity accounts.

BTS Hedged Income Portfolio accounts require an initial minimum of \$50,000.

BTS accepts, at its discretion and on a case-by-case basis, lower account minimums. Whether an account below the required amount is accepted is a matter to be determined at the time of application.

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

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

BTS Portfolios, or investment strategies, are described in detail in Item 4 above. Each Client's Portfolio is selected by the Client with the assistance of their financial representative. The Portfolio selected should match the investment objectives and risk tolerance of the Client.

BTS obtains its analytical data from daily market price and volume movements, interest rate movements on bonds, treasury bills, government securities, federal funds and prime rates, and various other printed sources it considers reliable. As Director of Research and Founder, Vilis Pasts has responsibility for developing and maintaining the investment models which create the "buy" and "sell" signals for BTS Tactical Asset Allocation portfolios. These models are monitored daily and updated quarterly, biannually, or annually, as economic conditions dictate. During the modeling process, the Director of Research consults with BTS employees and consultant(s) who are affiliated with the Investment Committee, such as CEO Matthew Pasts. The final determination of the "buy" and "sell" signals is derived from an interpretation of the investment models, and may be implemented by Vilis Pasts or Matthew Pasts, who communicate the instructions to employees authorized to process transactions.

BTS obtains research data and input for the asset allocation percentages for the Strategic Asset Allocation Portfolio from BCA Research, Morningstar, and Lombard Research, along with outside fund consultants, to fine tune the allocation percentages and fund selection.

BTS obtains data for the Tactical Asset Allocation Portfolios with the "Select" option from a number of sources. Research is performed by BTS to select what BTS believes are top performing funds based on fund performance, manager review, availability of the fund for active trading and liquidity issues with particular custodians used for the Tactical Asset Allocation Select Portfolios.

BTS obtains data for the Multi-Strategy Portfolios using the resources of BCA Research, Morningstar, and Lombard Research along with BTS technical analysis as portfolio inputs. In addition, BTS uses in-house technical models for the tactical portion of the portfolios with data analysis performed as described above.

Investing in securities involves risk of loss that Clients should be prepared to bear.

### **B) Risk of Loss – Strategy or Method of Analysis**

BTS aims to position portfolios favorably, but BTS' judgment about the attractiveness, value and potential appreciation of particular funds in which BTS portfolios invest may prove to be incorrect and may not produce the desired results.

BTS portfolios invest primarily in mutual funds and ETF's, also referred to as **underlying funds**. The use of underlying funds involves risk and is fund specific. Investing in underlying funds will also increase the total costs paid by BTS Clients, as funds used in BTS portfolios have their own fees and expenses passes onto Clients.

While our goal and objective is to position assets for medium and long-term trends, there is still a risk of high portfolio **turnover or frequent trading** due to market conditions outside of the control of BTS. Frequent trading can affect investment performance since it will increase certain fees and expenses, including transaction costs and the potential for taxes from multiple purchases and sales of securities. Frequent trading may also result in short term trading fees assessed by mutual funds. These fees will reduce your investment balance and returns. Frequent trading will also result in some mutual fund and annuity companies imposing trading restrictions on a BTS Client account. Such restrictions can either limit or eliminate BTS' ability to implement its exchange signals for an impacted Client. BTS is not always made aware of these restrictions in a timely manner. As a result, a Client's account will not be able to trade until the restriction is lifted or a Client selects a replacement mutual fund to use in their account. If a Client's account is unable to trade due to the restriction, the Client may experience returns that are materially different than Clients whose accounts did trade. When an account cannot trade due to a restriction, BTS will not refund any portion of the Annual Management Fee and a fee will continue to be assessed until the account is terminated by the Client or BTS.

As part of BTS' mandate of preservation of capital, BTS may implement its defensive approach and allocate up to 100% of assets into **money market funds**. Money market funds are not insured or guaranteed by the FDIC or any other government agency. Therefore, when invested in money market funds, BTS cannot guarantee Client accounts against loss. In addition, BTS Clients may be positioned in money market funds for an extended period of time. Because BTS considers this defensive positioning, the purchase and sale of the money market funds is not predetermined. This means that Clients may be positioned in money market funds for an extended period of time and will continue to pay management and underlying fund fees.

On certain occasions Clients' assets will be **concentrated** in one particular asset class up to 100%, such as high yield bonds and in certain non-diversified Funds. While our monitoring process and models are designed with an objective of seeking to reduce downside volatility and diversification, BTS cannot guarantee it will meet this objective. There is a risk that the concentration will result in greater volatility and losses.

BTS offers portfolios that use **ETF's**. A risk of investing in ETF's is "Tracking Risk". That is, investment in the BTS portfolios should be made with the understanding that the ETFs in which BTS may use will not be able to replicate exactly the performance of the indices they track because the total return generated by the securities will be reduced by transaction costs incurred in adjusting the actual balance of the securities. In addition, the ETFs in which BTS may use will incur expenses not incurred by their applicable indices. Certain securities comprising the indices tracked by the

ETFs may, from time to time, temporarily be unavailable, which may further impede the ETFs' ability to track their applicable indices.

### **C) Risk of Loss – Security and Issuer Type**

Many BTS Portfolios incorporate **fixed income securities**, as described in Item 4. When investing in fixed income securities, the value of your investment will fluctuate with changes in interest rates. Typically, a rise in interest rates causes a decline in the value of the fixed income securities. In general, the market price of debt securities with longer maturities will increase or decrease more in response to changes in interest rates than shorter-term securities. Other risk factors impacting fixed income securities include credit risk (the debtor may default) and prepayment risk (the debtor may pay its obligation earlier than planned, reducing the amount of interest payments). These risks could affect the value of a particular investment possibly causing total return to be reduced and fluctuate more than other types of investments.

For **high yield bonds** specifically, these lower-quality bonds present a significant risk for loss of principal and interest. These bonds offer the potential for higher return, but also involve greater risk than bonds of higher quality, including an increased possibility that the bond's issuer, obligor or guarantor may not be able to make its payments of interest and principal (credit quality risk). If that happens, the value of the bond may decrease, reducing the per share value of the funds purchased inside BTS portfolios and the total return realized by BTS clients. The lack of a liquid market for these bonds could also result in losses.

BTS Portfolios invest in **obligations issued by agencies and instrumentalities of the U.S. Government**. These obligations vary in the level of support they receive from the U.S. Government. They may be: (i) supported by the full faith and credit of the U.S. Treasury, such as those of the Government National Mortgage Association; (ii) supported by the right of the issuer to borrow from the U.S. Treasury, such as those of the Federal National Mortgage Association; or (iii) supported only by the credit of the issuer, such as those of the Federal Farm Credit Bureau. The U.S. Government may choose not to provide financial support to U.S. Government sponsored agencies or instrumentalities if it is not legally obligated to do so, in which case, if the issuer defaulted, the funds holding these securities that BTS invests in may not be able to recover their investment, potentially resulting in loss to BTS Clients.

Certain BTS portfolios incorporate the use of **equity securities (stocks)**. Stocks are subject to additional risks, including issuer specific risk, where the stock of a particular company may be more volatile than the overall market. Investing in **small cap stocks** involves additional risks, including operating risk, and liquidity risk. Investing in international and emerging markets stocks involves additional risks, including political risk and currency risk.

Investing in **inverse mutual funds**, which are designed to profit from declining securities prices, involves certain risks that may include increased volatility due to the funds' possible use of short sales of securities (borrowing securities in the belief the securities will decrease in value and then purchasing the securities later at a lower price) and derivatives such as options and futures, which give the options and futures owner the ability to purchase the securities later at a more beneficial price. The use of leverage or borrowing money to purchase additional securities by a mutual fund increases risk of the fund. The more a fund invests in leveraged instruments, the more the leverage will magnify any gains or losses on those investments.

## **Item 9 – 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 BTS or the integrity of BTS's management.

On October 29, 2012, BTS offered, and the SEC agreed to accept, a settlement regarding alleged violations of section 206(4) of the Advisers Act and Rule 206(4)-1(A)(5). The SEC alleged that some advertisements for the BTS High Yield Portfolio ("HYP") that claimed HYP had "no down years" were materially misleading because they failed to disclose with sufficient prominence and detail that, in 2004, a significant number of HYP Clients would have experienced investment results that were materially different (i.e. they had a down year) from the results portrayed in the model, which applied



HYP's buy/sell signals to the funds described in the advertisements. As part of the settlement, BTS neither admitted nor denied the allegations.

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

### **A) Broker Dealer Activities**

Certain BTS management persons and employees are registered with BTS Securities Corporation (“BTSC”), a registered broker-dealer with the Financial Industry Regulatory Authority (“FINRA”). See Item 10 C below for more details.

### **B) Futures and Commodities Activities**

Neither BTS nor any management person is registered, or has an application pending registration, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

### **C) Activities and Affiliations**

BTSC is an affiliate of BTS. BTS' advisory portfolios are marketed directly by officers and employees of BTS and through solicitors (“sales representatives”) some of whom are associated with BTSC. BTS compensates sales representatives and/or broker/dealers employing them by sharing a portion of the advisory fee paid by the Clients to BTS (0% to 1.5% of the fee paid to BTS on an ongoing basis). Vilis Pasts serves as a Director of BTSC and Matthew Pasts serves as President and a Director of BTSC. Joshua Breen serves as Secretary and a Director of BTSC. See Item 11 B below for potential conflicts.

BTS is the investment adviser to the BTS Tactical Fixed Income Fund and the BTS Tactical Fixed Income VIT Fund, open-end investment companies, or mutual funds. See Item 11 B below for potential conflicts.

BTS Insurance Agency, Inc., an affiliate of BTS, is an insurance agency licensed with the insurance department of several states, selling variable annuities and life insurance products. BTS' advisory portfolios are marketed directly by officers and employees of BTS and through sales representatives, some of whom are associated with BTS Insurance Agency. Vilis Pasts serves as the President and sole owner of BTS Insurance Agency.

## **Item 11 – Code of Ethics**

### **A) Code of Ethics**

BTS strives to observe exemplary standards of openness, integrity, honesty and trust. Accordingly, we have adopted a Code of Ethics for the purpose of deterring wrongdoing and promoting: 1) honest and ethical conduct; 2) full, fair, accurate, timely and understandable disclosure in reports and documents; and, 3) compliance with applicable laws (including federal and state securities laws), rules, and regulations. BTS and its employees take the best interest of Clients ahead of our own.

All employees are responsible for safeguarding nonpublic information about securities recommendations, Client holdings, and other Client information. Client information may only be shared with third parties that BTS works with for the normal management of Client accounts.

BTS will provide a copy of its Code of Ethics to any Client or prospective Client upon request.

### **B) Participation or Interest in Client Transactions**

The officers and registered representatives of BTS Securities Corporation, who are also employees or officers of BTS, receive a commission from the sale of a mutual fund or variable annuity to a person who may also be a Client or potential Client of BTS.

BTS has a conflict of interest in selecting the mutual funds to be used for BTS Portfolios where Client assets are custodied at Trust Company of America ("TCA"). BTS pays a custodial fee for accounts custodied at TCA. Certain funds that pay 12b-1 commissions of up to 25 basis points per year to TCA offset the custodial fee that BTS pays to TCA, thereby lowering the custodial fee that BTS pays and increasing client expenses. When selecting the mutual funds to use in these Portfolios, the payment of 12b-1 commissions is not a factor in deciding to select a fund.

Factors that BTS considers when purchasing these funds include, but are not limited to: 1) share class availability, where a fund does not have a less expensive share class available to BTS for purchase; 2) performance potential, where BTS' Investment Committee determines that long-term performance potential may offset the added cost attributable to the 12b-1 and therefore warrant the purchase of the 12b-1 paying fund; 3) market exposure (sector, duration and liquidity exposure), where the BTS Investment Committee determines that the less expensive fund does not offer the same or similar required market exposure that the purchase of a 12b-1 paying fund may offer.

To manage this conflict and the several factors included in the analysis, BTS' Investment Committee takes a top-down approach in its selection process, focusing first on such things as sector, liquidity, duration and general market exposure requirements, based on their analysis. The universe of available funds is then reviewed and narrowed down based on their conclusions. Due diligence on the available funds is conducted and a final list is compiled. Funds that do not pay a 12b-1 commission will not be considered for the final list on this fact alone if they do not provide necessary sector exposure, duration exposure, liquidity requirements or any other necessary elements BTS' Investment Committee considers necessary for maximizing performance potential. While BTS is sensitive to this conflict, BTS also recognizes selecting a fund based on cost alone and avoiding other necessary factors does not serve our Clients' best interests. We will continue to monitor this conflict and make changes to our policies and this Brochure as necessary.

As part of the tactical strategy and portfolios, certain BTS clients whose assets are held at the Trust Company of America will be invested in BTS' affiliated mutual fund, the TFI Fund. BTS will allocate a percentage of the clients account towards the TFI Fund. The percentages change and are rebalanced based upon current market conditions. As an example, a Client may hold 10%, rebalance to 15% and then 0%. Clients of BTS subject to this arrangement give their express consent and are provided up front disclosure in a BTS Client Agreement. A conflict of interest exists in this scenario as the TFI Fund is affiliated with BTS. To manage this conflict, Clients with assets invested in the TFI Fund will receive a credit (offset) against the advisory fee otherwise payable to BTS under the BTS Client Agreement for the advisory fees paid to BTS from the TFI Fund. The effect of this credit will be to reduce the amount of the advisory fee payable directly to BTS by the Client per this Agreement, but the credit will not affect the amount received by BTS for indirectly providing services to the Client since BTS retains the fees paid to us by the TFI Fund.

### **C) Similar Securities**

BTS, as the investment adviser to the BTS Funds, will purchase the same securities for the BTS Funds at the same time as BTS affects transactions for other BTS Clients. The BTS Funds will also affect purchase and sales of securities independently of the signaling of a move for BTS Clients.

BTS, BTS Securities Corporation and their respective officers, directors and employees may also purchase the same or similar mutual Funds for their own accounts to the extent permitted by our Code of Ethics, and may participate in the investment portfolios provided by BTS.

In situations where BTS is purchasing or selling the same securities for either the Clients in the BTS Portfolios, or the BTS Funds, BTS manages the orders to ensure that one Client will not be treated in such a way so as to create a disadvantage or loss to another Client. Policies and procedures include (but is not limited to) the following; treatment of Client orders fairly and in due turn, the maintenance of confidential information, fair allocation of trade executions when trading for multiple Clients, and equal disclosure of relevant information to Clients.

### **D) Recommending Securities**

In order to prevent a conflict of interest, Clients' interests are taken ahead of BTS directors, officers and employees, including registered representatives, of both BTS and BTS Securities Corporation. BTS personnel may act on BTS advice for their own accounts only after an exchange signal has occurred and exchanging Client accounts has commenced. At

times other than the signaling of a move, BTS personnel may conduct transactions in securities for their own accounts independent of a signal. Pursuant to our Code of Ethics, any activity by BTS directors, officer and employees that we deem may be disruptive or place Clients at a disadvantage is prohibited. Express permission is granted only after it is concluded that the activity will not interfere with the interests of Clients.

## **Item 12 – Brokerage Practices**

### **A) Selecting Brokerage Firms**

As the investment advisor for the BTS Funds, BTS selects the broker or dealer to be used in placing trade orders for the BTS Funds. In addition, BTS is able to select brokers for trades of Exchange Traded Funds for BTS Clients whose assets are custodied at Trust Company of America. The selection of a broker or dealer to be used is determined based on a number of factors including, but not limited to, the ability to execute trades in a manner beneficial to the BTS Funds and BTS Clients, the commissions or spreads charged by the broker dealer, and other services provided by the broker dealer.

Certain BTS Clients participate in wrap fee programs. Transactions in accounts participating in wrap fee programs are arranged only through the Wrap Sponsor, and commission charges, custodial and other fees are included within the total wrap-fee. Wrap accounts participating in wrap fee programs will not benefit from the possible advantages of aggregating with accounts other than those in the same wrap fee program.

BTS is unable to aggregate trades for accounts in wrap programs with BTS Clients. Wrap Accounts and other BTS Clients will generally trade separately and not necessarily at the exact same time. Wrap Accounts and other BTS Clients will therefore receive different execution prices. Transactions for all Clients using each respective wrap fee program will typically be aggregated together and receive pro rata pricing respectively.

At the request of the Client, BTS will suggest a financial representative whose office is located in the general area of the Client's address. The maximum representative fee percentage that BTS pays is the same for all financial representatives.

### **B) Soft Dollars**

BTS does not receive soft dollar benefits from the custodians we use or from the brokers we use to execute transactions.

## **Item 13 – Review of Accounts**

### **A) Periodic Reviews**

Tactical Asset Allocation Portfolios are constantly under review due to the technical model driven nature of the Tactical Portfolios. The Strategic Asset Allocation Portfolios are reviewed quarterly for quarterly rebalance and for allocation changes. Multi Strategy Portfolios are reviewed quarterly for quarterly rebalance and for any allocation changes. BTS's Investment Committee reviews the portfolios and allocations within the portfolio on a routine and quarterly basis.

The Client Account Management and New Accounts Team reviews Client accounts on a routine basis confirming the position and value of Client assets and after every exchange of a Client's account. A supervisor reviews the work of the Client Account Managers and New Account specialist.

When an error or potential error in a Client's account is discovered, either by BTS, the Client, custodian or the Client's financial representative(s), BTS will investigate the error promptly in order to determine the cause of the error and what impact the error had on the Client's account. For Clients whose assets are held directly at a custodian other than the Trust Company of America (TCA), if an error results in a loss to the Client due to BTS' negligence or malfeasance, BTS will act to reimburse the Client through an offer of monetary restitution or free management service. At the discretion of BTS, in lieu of monetary restitution, BTS may offer a period of free service for all or a portion of the next contract period, depending upon the facts and circumstances related to the error. For errors made at the Trust Company of America (TCA), the error is corrected directly in the Client's account and BTS reimburses TCA for any loss.

## **B) Regular Reports**

Clients receive a written renewal notice at least one month prior to renewal date of their Agreement and a notice confirming renewal are mailed to clients within one week after renewing the Agreement. For Clients whose assets are custodied at custodians other than TCA, Client's receive a notice following a trade in their account. Clients whose accounts renew automatically only receive a notice confirming renewal one week after renewing their Agreement. BTS does not send routine performance reports or other types of reports specific to Client accounts to Clients.

Clients receive monthly or quarterly statements from their account Custodian. Custodians are not affiliated with BTS. While BTS does not send routine statements or reports to Clients, Clients are urged to compare any notices or other communications they receive from BTS with the notices and statements they receive from their Custodian.

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

BTS compensates authorized representatives (sometimes referred to as “financial representatives,” “Client’s representative” or “financial advisor”), broker/dealers, and/or other investment advisors employing the authorized representatives (“Solicitors”) for client referrals. The referral compensation is paid out of the BTS Annual Management Fee. The individual authorized representative acting on behalf of a Solicitor associated with a Client referral (if applicable) will receive all or a portion of the referral compensation from the Solicitor. The compensation is paid to Solicitors for referring their Clients to BTS pursuant to the terms and conditions set forth in a written agreement between BTS and the Solicitor. Solicitors, for referring their Clients to BTS, share in a portion of the total maximum Annual Management Fee, as described in Item 5 in this Brochure. When selecting the BTS advisory Portfolio and completing the account application materials and Client Agreement during the on-boarding stage, Clients and the Solicitor/authorized representative independently negotiate the referral fee portion of the total Annual Management Fee. The maximum fee that Solicitors may receive for the referral is up to 1.5%, based on the account value at the time the fee is to be assessed pursuant to the terms and conditions set forth in the Client Agreement.

Because the referral fee is paid by BTS to the Solicitor out of BTS’ total Annual Management Fee, and because BTS’ general policy is to require Clients to maintain a Solicitor/authorized representative on their account at all times in order for BTS to be able to manage the Client’s account, the referral fee is an ongoing fee charged for the life of the account unless BTS is notified to the contrary in writing that the Client and Solicitor/authorized representative have agreed to lower or remove the Solicitor/authorized representative portion of the fee, either temporarily or permanently.

Because BTS’ general policy is to require all Clients maintain an authorized Solicitor/authorized representative on their account, Clients and their representative should promptly notify BTS immediately if there have been any changes to the Client’s financial situation and upon termination or alteration of the relationship between the Solicitor or Client’s representative and the Client. Without proper and timely notice, Clients will continue to be assessed the referral fee until BTS is able to determine on its own or through delayed notice that the Solicitor is no longer entitled to the fee. In such situations, BTS will not issue a refund or credit of the referral fee portion of the fee back into the Clients account. In addition, during the period where a Client’s account is without a Solicitor/authorized representative and BTS continues to service the account and provide its advisory services for the Client, BTS will not issue a refund or credit any portion of the fee except where BTS deems it appropriate. If BTS determines through an internal investigation that a Solicitor/authorized representative intentionally omitted disclosure of the termination of the relationship or if there was any negligence or other unusual circumstances preventing notice to BTS, BTS may, in its sole discretion, deem it appropriate and in the best interest of the Client to issue all or a portion of the referral fee or Annual Management Fee pursuant to BTS refund policies.

Because BTS requires all accounts to maintain a Solicitor/authorized representative on their account, if a Client terminates their relationship with a Solicitor/authorized representative, in order for BTS to continue to manage the Client’s account the Client must secure another Solicitor/authorized representative to act as Solicitor that BTS is authorized to enter into an agreement with and pay the referral portion of the fee to for the duration of the Clients contract period. If, after a thirty day period expires after discovery and receipt of notice that a Client is without a representative and the Client was unable to secure another representative, BTS will terminate management of the

account. BTS will extend this thirty day period if administrative or processing delays occur or if BTS deems it appropriate, in BTS' sole discretion.

In addition to the compensation noted above, BTS has revenue sharing agreements with some brokerage firms for marketing or due diligence purposes. BTS occasionally gives marketing support on a case-by case-basis to broker/dealers and/or sales representatives of broker/dealers in the form of cash payments for the marketing of BTS advisory services. Some representatives will receive consulting fees from BTS for providing consulting services to BTS. Since the sales representative will also handle a Client's account directly, or be affiliated with the broker/dealer handling the Client's account, a potential conflict of interest exists. Furthermore, solicitation agreements between BTS and regional directors exist where the regional directors receive a percentage of the management fee paid to BTS.

BTS advisory portfolios are marketed directly by officers and employees of BTS and through financial representatives who may be associated with BTS Securities Corporation (an affiliate of BTS), Investment Company affiliated brokerage firms or other brokerage firms. Usually, the representative is a licensed sales person employed by a broker/dealer. As such, the representative may receive, or has received, commissions for the Client's initial investment in the mutual funds and subsequent commissions depending on the advisory portfolio entered into by the Client. BTS does not receive any portion of the commissions.

## **Item 15 – Custody**

BTS technically has “custody” of Client assets due to BTS' ability to deduct advisory fees from Client accounts. Depending upon the size of the account, BTS will charge Clients more than \$1,200 in fees, six months or more in advance. Assets are held directly at a custodian that is not affiliated with BTS.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains Client's investment assets. As noted elsewhere in this Brochure, Clients should carefully review those statements and compare those official custodial records to any notices that we may provide to you. Our notices to you may vary from custodial statements based on differences in reporting procedures or cut off dates.

## **Item 16 – Investment Discretion**

For Client's that enter into an advisory agreement directly with BTS, BTS receives discretionary authority from the Client at the outset of an advisory relationship by completing and signing the BTS Client Agreement. Depending on the advisory portfolio chosen by a Client, discretion is limited to the timing of transactions and the amount of securities to be bought and sold. In other portfolios, BTS has discretion to decide when to initiate transactions, select the identity of securities to be bought and sold and the amount of securities to be bought and sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular advisory portfolio a Client has selected.

When selecting securities and determining amounts, BTS observes the investment policies applicable to each advisory portfolio and limitations and restrictions of the Clients for which it advises. For registered investment companies, BTS's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

In certain wrap fee programs offered by Wrap Sponsors, where BTS agrees to provide model investment advice to the Wrap Sponsor for the benefit of Wrap Sponsor clients, BTS' discretion over the assets that are impacted by BTS' model trading advice is determined by the agreement between the Wrap Sponsor and BTS. Depending upon the nature of the relationship and the terms of the agreement, the Wrap Sponsor will maintain (or designate) a certain level of discretionary authority over program or account assets and choose either to reject or accept our model investment advice, in whole or in part, for use in their program accounts. In these situations, BTS is providing non-discretionary advice to the Wrap Sponsor.

For other Wrap Programs, however, the exercise of discretionary authority of the Wrap Sponsor is limited to performing administrative and/or trade order implementation duties pursuant to the direction of BTS. In such situations, BTS maintains discretion over program assets under the BTS models as the Wrap Sponsor requires BTS to continuously review and supervise the model instructions that we provide in order to ensure that the model is accurate and complete. When BTS, in its discretion determines the model requires amending or modifying, the Wrap Sponsor requires BTS to adjust the model. In these situations, the Wrap Sponsor agrees that it will begin processing our instructions over program assets on the day that we issue the instructions.

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

BTS does not vote proxy statements for any Clients in BTS Portfolios. Proxy statements are sent directly to Clients by the custodians.

### Proxies for the BTS Funds:

BTS serves as investment adviser to open-end investment companies under the Northern Lights Fund Trust. The BTS Funds make investments in other investment companies that are not affiliated (“Underlying Funds”). The BTS Funds are required by the Investment Company Act to handle proxies received from Underlying Funds in a certain manner. In particular it is the policy of BTS to vote all proxies received from the Underlying Funds in the same proportion that all shares of the Underlying Funds are voted, or in accordance with instructions received from Fund shareholders, pursuant to Section 12(d)(1)(F) of the Investment Company Act. Proxies received on behalf of the BTS Funds that represent securities that are not investment companies will be voted according to BTS’ proxy voting policies.

All proxies received from Underlying Funds will be reviewed with the Chief Compliance Officer or appropriate legal counsel to ensure proper voting. After properly voted, the proxy materials are placed in a file maintained by the Chief Compliance Officer for future reference. The Chief Compliance Officer is ultimately responsible for administering voting policies so that proxies received by BTS are voted in a timely manner and in a manner consistent with established BTS policies. Although the majority of proxy proposals can be handled in accordance with BTS’ established proxy policies, BTS recognizes that some proposals require special consideration that may dictate that exceptions are made to its general procedures.

Clients may obtain a copy of BTS’s complete proxy voting policies and procedures upon request. Clients may also obtain information from BTS about how BTS voted any proxies on behalf of the BTS Funds.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about BTS’s financial condition. BTS has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and has not been the subject of a bankruptcy proceeding. BTS’s audited balance sheet is attached to this brochure.

**Brochure Supplement (Part 2B of Form ADV)**

**Supervised Persons**

Vilis Pasts and Matthew Pasts

**BTS Asset Management, Inc.  
420 Bedford St.  
Suite 340  
Lexington, MA 02420**

**1-800-343-3040**

**3/31/16**

**This Brochure Supplement provides information about Vilis Pasts and Matthew Pasts that supplements the BTS Asset Management, Inc. Brochure. You should have received a copy of that Brochure. Please contact the Chief Compliance Officer if you did not receive BTS Asset Management Inc.'s Brochure or if you have any questions about the contents of this supplement.**

**Additional information about Vilis Pasts and Matthew Pasts is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Vilis Pasts, Chairman and Director of Research**

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

Year of Birth: 1944

Educational Background:

Babson College, Bachelor of Science Business Administration, 1965

Business Experience:

Prior to founding BTS Asset Management in 1979, Vilis was employed as a Securities Analyst for Spear & Staff, where he worked directly with the President and Founder. From 1966 to 1970, Vilis was an account executive with Connecticut General Life, where he received the Award of Merit, the Vice President's Club and President's Club awards. In 1967, he became a registered representative. From 1970 to 1978, he held various positions with several brokerage firms, including registered principal since 1972. Vilis also founded BTS Securities Corporation ("BTSC") in 1981. BTSC is a registered broker/dealer with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority, Inc. (FINRA), and the Municipal Securities Rulemaking Board. Vilis holds the Series 7, 63, 65, and 24 securities licenses.

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

None

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

Registered Principal and owner of BTS Securities Corporation. President and owner of BTS Insurance Agency, Inc. Vilis Pasts receives commissions based on the sale of mutual funds and variable annuities through BTS Securities Corporation and BTS Insurance Agency. This practice gives Vilis an incentive to recommend investment products based on the compensation received, rather than on the Client's needs. Investment product recommendations through BTS Securities Corporation are unrelated to Funds selected for BTS Asset Management advisory portfolios.

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

None

### **Item 6 - Supervision**

Vilis Pasts is the Committee Chair and senior officer on the investment committee and is therefore not subject to further supervision but is subject to the BTS Code of Ethics and compliance policies and procedures of the firm.

All investment decisions are made by Vilis Pasts or Mathew Pasts, who, as members of the BTS Asset Management, Inc. (BTS) Investment Committee (IC), have access to advice and research provided by the IC. The IC is chaired and supervised by Vilis Pasts, Chairman of BTS, and Director of Research. Other members of the IC are Matthew Pasts, CEO, Treasurer, and Director of BTS; Isaac Braley, President and Director of BTS, and Don Berzins, Sr. Market Technical Analyst for BTS. Vilis Pasts and Matthew Pasts are the only two individuals authorized by BTS Policy to exercise discretionary authority over Client assets and make trade decisions.

For purposes of additional internal control, policies and procedures are in place to monitor the trading activities (including the BTS "Code of Ethics") of all IC members using commercially available software designed for that purpose. The tracking software is managed by the Compliance Department of BTS.

Joshua Breen, Chief Compliance Officer, can be contacted at 800-343-3040.



## **Matthew Pasts, CMT, Chief Executive Officer, Treasurer, Director**

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

Year of Birth: 1965

Educational Background:

Babson College, Bachelor of Science Business Administration, 1993

Babson Graduate School of Business Administration, Part Time 1993 -1999

Business Experience:

Matthew joined BTS in 1989, having worked in various capacities since that time. Matthew is a member of the Market Technicians Association (MTA). Upon completion of the MTA's Chartered Market Technician (CMT) program, and gaining membership into the MTA, he obtained the CMT designation. Since 1991, Matthew has been a registered principal with BTS Securities Corporation and currently serves as its President and Treasurer. Matthew holds the Series 6, 63, 65, and 26 securities licenses.

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

None

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

Matthew Pasts is a Registered Principal of BTS Securities Corporation, and receives commissions based on the sale of mutual funds and variable annuities through BTS Securities Corporation. This practice gives Matthew an incentive to recommend investment products based on the compensation received, rather than on the Client's needs. Investment product recommendations through BTS Securities Corporation are unrelated to Funds selected for BTS Asset Management advisory programs.

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

None

### **Item 6 - Supervision**

Matthew Pasts is the BTS CEO, and, as the "next senior" officer to Vilis Pasts on the investment committee, he is subject only to the supervision of Vilis Pasts, the BTS Code of Ethics and BTS' compliance policies and procedures.

All investment decisions are made by Vilis Pasts or Mathew Pasts, who, as members of the BTS Asset Management (BTS) Investment Committee (IC), have access to advice and research provide by the IC. The IC is chaired and supervised by Vilis Pasts, Chairman of BTS, and Director of Research. Other members of the IC are Mathew Pasts, CEO, Treasurer, and Director of BTS, Isaac Braley, President and Director of BTS, and Don Berzins Sr. Market Technical Analyst for BTS. Vilis Pasts and Matt Pasts are the only two individuals authorized by BTS Policy to exercise discretionary authority over Client assets and make trade decisions.

For purposes of additional internal control, procedures are in place to monitor the trading activities and policy and procedure reviews and agreements (including the BTS "Code of Ethics") of all IC members using commercially available software designed for that purpose. The tracking software is managed by the Compliance Department of BTS.

Joshua Breen, Chief Compliance Officer, can be contacted at 800-343-3040.

## **Professional Certification**

Matthew Pasts has earned the following certification that is required to be explained in further detail.

### **Chartered Market Technician**

The Chartered Market Technician (CMT) Program is a certification process in which candidates are required to demonstrate proficiency in a broad range of technical analysis subjects. Administered by the Accreditation Committee of the Market Technicians Association (MTA), Inc., the Program consists of three levels. CMT Level 1 and CMT Level 2 are multiple choice exams while CMT Level 3 is in essay form. The CMT Program and designation is a voluntary certification; no federal or state law or regulation requires someone to hold the CMT designation.

To attain the right to use the CMT designation an individual must satisfactorily fulfill the following requirements:

- Successful completion of all three (3) levels of the CMT Exam;
  - CMT Level 1 (Definition). The Level 1 examination measures basic, entry-level competence and understanding of the candidate. The CMT Level 1 candidate needs to have a working knowledge of the basic tools of the technical analyst.
  - CMT Level 2 (Definition/Application). The CMT Level 2 examination requires the candidate to demonstrate a greater depth of analysis and competency. The CMT Level 2 candidate is expected to demonstrate proficiency in applying more advanced analytical techniques. Overall, the candidate is responsible for the theory and application of concepts and techniques.
  - CMT Level 3 (Integration). The CMT Level 3 examination tests the candidate on the development of logical and consistent research opinions, portfolio strategies and trading decisions based on a wide range of charts and technical data. The CMT 3 candidate must pass the ethics portion of this exam or risk failure.
- Have obtained “Member Status” within the MTA.
- Have been gainfully employed in a professional analytical or investment management capacity for a minimum period of three (3) years and must be regularly engaged in this capacity at the time of successfully passing all three (3) levels of the CMT Exam.

## **Balance Sheets**

### **BTS Asset Management, Inc.**

**December 31, 2015 and 2014**



**Mayer Hoffman McCann P.C.**  
**Tofias New England Division**  
An Independent CPA Firm

# **BTS ASSET MANAGEMENT, INC.**

## ***Balance Sheets***

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Mayer Hoffman McCann P.C.  
Tofias New England Division  
An Independent CPA Firm

500 Boylston Street ■ Boston, MA 02116  
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### *Independent Auditors' Report*

The Board of Directors  
BTS Asset Management, Inc.  
Lexington, Massachusetts

We have audited the accompanying balance sheets of BTS Asset Management, Inc. as of December 31, 2015 and 2014, and the related notes to the balance sheets.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on this financial statement based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Opinion**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of BTS Asset Management, Inc. as of December 31, 2015 and 2014 in accordance with accounting principles generally accepted in the United States of America.

*Maye Hoffman McCann P.C.*

March 10, 2016  
Boston, Massachusetts

**BTS ASSET MANAGEMENT, INC.**  
*Balance Sheets*  
*December 31,*

	2015	2014		2015	2014
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 1,755,227	\$ 552,087	Deferred advisory fees	\$ 3,171,537	\$ 3,687,312
Trading marketable securities	4,066,357	6,296,385	Accounts payable and accrued expenses	741,748	834,470
Advisory fees receivable	686,995	740,448	Distributions payable	2,300,000	2,800,000
Prepaid commissions	1,514,688	1,779,052	Commissions payable	501,936	583,297
Prepaid expenses and other current assets	277,498	329,428			
	<u>8,300,765</u>	<u>9,697,400</u>	<b>Total current liabilities</b>	<u>6,715,221</u>	<u>7,905,079</u>
<b>Total current assets</b>					
Property and equipment:			Shareholders' equity:		
Furniture and equipment	1,278,924	1,254,975	Common stock, Class A, \$0.01 par value, authorized 50,000 shares, voting, issued and outstanding 10,000 shares	100	100
Less: accumulated depreciation	1,135,028	1,027,926	Common stock, Class B, \$0.01 par value, authorized 50,000 shares, non-voting, issued and outstanding 32,857 shares	321	321
	<u>143,896</u>	<u>227,049</u>	Additional paid-in capital	506,330	506,330
<b>Net property and equipment</b>			Retained earnings	1,307,163	1,594,671
Other assets:					
Deposits	27,449	28,149	<b>Total shareholders' equity</b>	<u>1,813,914</u>	<u>2,101,422</u>
Advances to related parties	57,025	53,903			
	<u>84,474</u>	<u>82,052</u>			
			<b>Total liabilities and shareholders' equity</b>	<u>\$ 8,529,135</u>	<u>\$ 10,006,501</u>
<b>Total assets</b>	<u>\$ 8,529,135</u>	<u>\$ 10,006,501</u>			

# **BTS ASSET MANAGEMENT, INC.**

## ***Notes to Balance Sheets***

### ***Note 1 - Nature of Operations and Summary of Significant Accounting Policies***

BTS Asset Management, Inc. (the “Company”) is registered with the Securities and Exchange Commission as an investment advisor under the Investment Advisors Act of 1940. The Company, which was established in 1979, studies general investment market conditions and, in return for a fee, provides discretionary and non-discretionary asset allocation advisory services and renders advice as to when investment balances should be moved or transferred from one investment category to another.

A summary of the accounting policies consistently applied in the financial statement follows:

#### ***Financial Statement Presentation***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Company considers all highly liquid, short-term investments with an original maturity of three months or less to be cash equivalents. In addition, the Company maintains its cash and cash equivalents at a financial institution in accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in these accounts. The carrying amounts for cash equivalents approximate fair value because of the short maturity, high liquidity, and low risk of default associated with these instruments.

#### ***Revenue Recognition***

Advisory fees are charged on a quarterly or annual basis and received in full generally within one month of the contract execution with a client.

Company policy is to defer recognition of the advisory fee income, which is amortized (less a nominal set-up charge) on a straight-line basis over the life of the contract.

The Company has agreements with an unaffiliated Funds Trust and unaffiliated Variable Trust to act as the investment advisor for services for certain of the funds held in the trusts. The Company receives up to 1% of total net assets that are under their management.

#### ***Commissions***

Commission expense represents the portion of advisory fees paid to brokers at such time as advisory fees are collected from clients. The commission expense is typically equal to 50% and in some cases can be increased up to 70% of the advisory fee charged. The recognition of the commission expense is deferred as prepaid commissions and recognized in the same manner as advisory fee income.

# **BTS ASSET MANAGEMENT, INC.**

## ***Notes to Balance Sheets***

### ***Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)***

#### ***Trading Marketable Securities***

Trading marketable securities consist of mutual funds and high-grade equity securities. The cost of investments sold is determined on the specific identification or first-in, first-out method.

#### ***Advisory Fees Receivable***

An allowance for doubtful accounts may be established based on a detailed review of the advisory fees receivable. The factors influencing management's judgment of the adequacy of the allowance for doubtful accounts include historical losses, knowledge of the customer's business and current economic conditions. Advisory fees receivable are written off at the time management feels that the possibility of collection is remote. At December 31, 2015 and 2014, there was no allowance for doubtful accounts.

#### ***Property and Equipment***

Property and equipment are stated at cost. Major additions are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation is provided over the assets' estimated useful lives of three to seven years using the straight-line method.

#### ***Income Taxes***

The shares of the Company are owned by BTS Asset Management Trust (the "Trust"), a Massachusetts Business Trust. The Trust, with the consent of its shareholders, has elected to have the Company be treated as an S Corporation for Federal income tax purposes, whereby all income and losses of the Company are reported by the shareholders on their individual tax returns. For state tax purposes, Massachusetts requires the income and losses of the Company to be reported on the shareholders' individual tax returns. The Company is subject to state excise taxes and a state entity level tax.

#### ***Uncertain Tax Positions***

The Company accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense.

The Company has identified its tax status as a corporation electing to be taxed as a pass-through entity as a tax position; however, the Company has determined that such tax position does not result in an uncertainty requiring recognition. In addition to the Company's tax status, the Company has other tax positions that have been determined to be highly certain and, therefore, no reserve for unrecognized tax liability is deemed necessary. The Company is not under examination by any taxing jurisdiction. The Company's Federal and state income tax returns are generally open for examination for three years.



# BTS ASSET MANAGEMENT, INC.

## *Notes to Balance Sheets*

### *Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)*

#### *Advertising Costs*

Certain advertising costs are expensed as incurred.

#### *Fair Value Measurements*

The Company follows the fair value standard which is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under this change must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes how to measure fair value based on a three-level hierarchy of inputs, of which the first two are considered observable and the last unobservable.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

**Level 1** - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 include mutual funds and publically traded equity investments.

**Level 2** - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

**Level 3** - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

At December 31, 2015 and 2014, trading marketable securities and the investment in the BTS Asset Allocation/High Yield Fund LLC (see Note 2) are all considered Level 1 as the underlying securities are primarily in mutual funds traded in active markets.

#### *Subsequent Events*

The Company has evaluated subsequent events through March 10, 2016, the date the financial statement was authorized to be issued.

# **BTS ASSET MANAGEMENT, INC.**

## ***Notes to Balance Sheets***

### ***Note 2 - BTS Tactical Fixed Income Fund***

The Company was the managing member of BTS Tactical Fixed Income Fund LLC (formerly BTS Asset Allocation/High Yield Fund LLC) (the "LLC"). During 2013, the LLC entered into an Agreement and Plan of Reorganization whereas the LLC was liquidated and the assets of the LLC transferred into a fund under the Northern Lights Fund Trust. Included in trading marketable securities as of December 31, 2015 and 2014, respectively, is \$853,936 and \$4,554,454 invested in the BTS Tactical Fixed Income Fund which is a non-diversified series of Northern Lights Fund Trust.

### ***Note 3 - Margin Loan***

The Company has available a thirty-day margin investment account to utilize in its investments in mutual funds and high yield corporate securities. The margin loan cannot exceed 50% of the investment market value. If there is a decline in the market value of the investment and the margin loan then exceeds 50%, the Company would have to pay down the loan within a specified period of time so that it is in compliance. There was no outstanding balance on the margin loan at December 31, 2015 or 2014.

### ***Note 4 - Related Party Transactions***

The Company paid BTS Securities Inc., a company controlled by the majority shareholder of the Company, approximately \$43,000 in 2015 and 2014 for signature guarantee services.

At December 31, 2015 and 2014, respectively, advances to related parties of \$57,025 and \$53,903 include advances made to related companies which are controlled by the Company's two shareholders.

### ***Note 5 - Commitments and Contingencies***

The Company leases its office facilities under a non-cancelable operating lease. The lease provides for fixed monthly rentals including real estate taxes and operating costs. During 2013, the Company amended its lease. The amended lease provides for monthly base rental expense of \$22,621 over the life of the lease expiring in November 2018. The Company has an option to extend the lease for five years.

The Company also leases equipment under various operating leases. Lease terms expire at various times through November 2018.

# BTS ASSET MANAGEMENT, INC.

## *Notes to Balance Sheets*

### *Note 5 - Commitments and Contingencies (Continued)*

Future minimum lease payments on operating leases as of December 31, 2015 are as follows:

2016	\$	316,000
2017		304,000
2018		<u>254,000</u>
<b>Total</b>	<b>\$</b>	<b><u><u>874,000</u></u></b>

### *Note 6 - Profit Sharing*

The Company has a contributory 401(k) profit sharing plan. To be eligible to participate in the plan, an employee must complete six months of service.

### *Note 7 - Concentration of Credit Risk*

At December 31, 2015 and 2014, two mutual funds accounted for 95% of the trading marketable securities.



<b>Facts</b>	What does BTS Asset Management (“BTS”) do with your personal information
<b>Why?</b>	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
<b>What?</b>	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> <li>• Social Security number</li> <li>• Contact and Employment Information</li> <li>• Assets and Income</li> <li>• Investment Experience</li> <li>• Account Balances and Payment Information</li> <li>• Transaction History</li> </ul>
<b>How?</b>	<p>When you are no longer our customer, we continue to share your information as described in this notice.</p> <p>All financial companies need to share personal information to run their everyday business. In the section below, we list the reasons financial companies can share their clients' personal information; the reasons chooses to share; and clients' BTS whether you can limit this sharing.</p>

Reasons we can share your personal information	Does share? BTS	Can you limit this sharing?
<b>For our everyday business purposes</b> — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes</b> — to offer our products and services to you	Yes	No
<b>For joint marketing with other financial companies</b>	No	We don't share
<b>For our affiliates' everyday business purposes</b> — information about your transactions and experiences	No	We don't share
<b>For our affiliates' everyday business purposes</b> — information about your creditworthiness	No	We don't share
<b>For nonaffiliates to market to you</b>	No	We don't share
<b>Questions?</b>	Call BTS Compliance Department at 800-343-3040	

<b>Who we are</b>	
<b>Who is providing this notice?</b>	BTS Asset Management, Inc. ("BTS")
<b>What we do</b>	
<b>How does BTS protect my personal information?</b>	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. We maintain physical, electronic and procedural safeguards to guard our customers' nonpublic personal information. Employees who violate our data security policies are subject to disciplinary action.
<b>How does BTS collect my personal information?</b>	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>• Open an account</li> <li>• Provide employment information</li> <li>• Give account information</li> <li>• Provide your income</li> <li>• Give us your contact information</li> </ul> <p>We also collect your personal information from others, such as affiliates, custodians, or other companies.</p>
<b>Why can't I limit all sharing?</b>	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> <li>• sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>• affiliates from using your information to market to you</li> <li>• sharing for nonaffiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>
<b>Definitions</b>	
<b>Affiliates</b>	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>• BTS Securities Corporation</li> <li>• BTS Insurance Agency, Inc.</li> </ul>
<b>Nonaffiliates</b>	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>• BTS does not share information with nonaffiliates so they can market to you.</li> </ul>
<b>Joint marketing</b>	<p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>• BTS doesn't joint market.</li> </ul>
<b>Other important information</b>	
<p>This notice applies to individual consumers who are customers or former customers. This notice replaces all previous notices of our consumer privacy policy, and may be amended at any time. We will keep you informed of changes or amendments as required by law.</p>	