

## Robert W. Colby Asset Management, Inc.

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### **Disclosure Document of Robert W. Colby Asset Management, Inc.**

A Nevada Corporation Registered in the State of New York as a Registered Investment Advisor.

THE DELIVERY OF THIS DISCLOSURE DOCUMENT AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF THIS DISCLOSURE DOCUMENT. NO PERSON IS AUTHORIZED BY ROBERT W. COLBY ASSET MANAGEMENT, INC. TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS DISCLOSURE DOCUMENT.

THE DATE OF THIS DISCLOSURE DOCUMENT IS August 10, 2010.

BEFORE SIGNING ANY AGREEMENTS WITH THE ADVISOR, YOU SHOULD CAREFULLY READ THIS ENTIRE DOCUMENT AND DISCUSS WITH ROBERT W. COLBY ASSET MANAGEMENT, INC. THE VARIOUS RISKS INHERENT WITH TRADING EXCHANGE TRADED FUNDS.

## RISK DISCLOSURE STATEMENT

PLEASE NOTE THAT ROBERT W. COLBY ASSET MANAGEMENT, INC. (**COLBY**) UTILIZES A HIGH-VOLATILITY TRADING STRATEGY: THE STOCKS THAT GO UP THE MOST WHEN THE STOCK MARKET IS IN A BULLISH TREND OFTEN GO DOWN THE MOST DURING MARKET CORRECTIONS TO THE DOWNSIDE (BEARISH TREND). COLBY WILL MAKE EVERY EFFORT TO PROTECT THE ASSETS OF A **CLIENT** IN A DOWN/BEARISH MARKET, BUT THERE IS STILL A RISK OF LOSS, ESPECIALLY IN THE SHORT-TERM.

THIS STRATEGY IS BEST SUITED FOR RETIREMENT ACCOUNTS: THERE WILL BE SIGNIFICANT SHORT-TERM GAINS AND/OR LOSSES THAT ARE MORE INSULATED IN A RETIREMENT (TAX FREE) ACCOUNT. PLEASE CONSULT YOUR TAX ADVISOR REGARDING THIS ISSUE.

YOUR BROKERAGE FIRM WILL CHARGE TRADING FEES: OUR RESEARCH INDICATES THERE MAY BE ON AVERAGE 2 TO 4 TRADES PER WEEK, ALTHOUGH THIS IS NOT GUARANTEED. IT IS ALSO POSSIBLE THAT NO TRADES MAY BE MADE IN A GIVEN WEEK.

THIS BRIEF STATEMENT CANNOT DISCLOSE ALL THE RISKS AND OTHER SIGNIFICANT ASPECTS OF OUR TRADING APPROACH. YOU SHOULD THEREFORE CAREFULLY STUDY THIS DISCLOSURE DOCUMENT BEFORE YOU BECOME A **CLIENT**, INCLUDING THE DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT, ON PAGE 11.

DO NOT SEND ROBERT W. COLBY ASSET MANAGEMENT, INC. YOUR FUNDS FOR **MANAGEMENT**. WE REQUIRE OUR **CLIENTS** TO DEPOSIT FUNDS TO BE MANAGED IN AN ACCREDITED CUSTODIAL ACCOUNT WITH CHARLES SCHWAB, FIDELITY INVESTMENTS, OR OTHER CUSTODIAN SPECIFIED BY ROBERT W. COLBY ASSET MANAGEMENT, INC.

**Table of Contents**

RISK DISCLOSURE STATEMENT ..... 2

INTRODUCTION ..... 4

MANAGEMENT ..... 4

OPENING THE ACCOUNT – BROKERAGE ARRANGEMENTS ..... 8

THE TRADING PROGRAM ..... 8

INVESTOR PROFILE ..... 11

PERFORMANCE RECORD ..... 11

PRINCIPAL RISK FACTORS AND OTHER CONSIDERATIONS ..... 12

FEES AND EXPENSES ..... 14

OTHER CONSIDERATIONS ..... 15

CONCLUSION ..... 16

DISCLOSURE DOCUMENT ACKNOWLEDGEMENT ..... 17

## INTRODUCTION

ROBERT W. COLBY ASSET MANAGEMENT, Inc. ("**Colby**") was organized as a Corporation in 2009 under the laws of Nevada for the purpose of offering portfolio management services to both retail and institutional investors who seek to achieve both capital appreciation of its assets and current income by making investments which offer significant potential opportunities for growth and income, according to Colby's research.

The primary trading strategy of **Colby** will be to buy and sell, on behalf of a **Client**, Exchange Traded Funds ("ETFs"), based on **Colby's** "Top 10 ETF" Strategy described later in this document. An exchange-traded fund (or ETF) is an investment vehicle traded on stock exchanges, much like stocks. An ETF holds assets such as stocks or bonds and trades at approximately the same price as the net asset value of its underlying assets over the course of the trading day. Many ETFs track an index, such as the S&P 500 or MSCI EAFE, while others could track commodities or precious metals, like gold. ETFs may be attractive as investments because of their low costs, tax efficiency, and stock-like features.

## MANAGEMENT

### Robert W. Colby

Robert W. Colby is the Chairman and Chief Investment Strategist of Robert W. Colby Asset Management, Inc. The firm Robert W. Colby Asset Management, Inc. is registered as a Registered Investment Advisor in New York State, and all other states where required. Mr. Colby is responsible for determining the investments made in **Client** accounts.

Mr. Colby's 40-year career in the financial industry includes experience in investment research, trading, consulting, teaching, and development of methods and systems for trading and investing.

Since 2001, Mr. Colby has been an Independent Research Consultant to professional investors in New York City. He has developed custom investment/trading decision-making models for institutional and private **Clients**, including hedge funds. He developed objective and quantitative Algorithmic Market Timing Models, Relative Strength Ranking Systems, Daily Stock Screens highlighting Major Breakouts/Breakdowns, and other useful tools for managing large universes of stocks. He also has created models for fixed income, Forex, and commodities markets. He

writes a daily market analysis and strategy reports for institutional investors and for two websites, RobertWColby.com and TraderPlanet.com.

From 2000 to 2001, Mr. Colby was an Instructor at the New York Institute of Finance. There he developed and taught a new course, *Technical Analysis for Traders*. He was also an instructor at New York University, where he developed and taught a new course, *Market Timing for Investors*.

For the prior 11 years, Mr. Colby was a proprietary trader at Schonfeld Securities and Cowen & Company, both in New York. At Schonfeld, he had complete P & L responsibility for one of the firm's equities trading accounts. The proprietary trading systems used made the firm extremely successful and one of the fastest growing member firms of the NYSE during those years. At Cowen & Company, Mr. Colby worked closely with the head trader. His unit was significantly and consistently profitable.

In 1989-1990, Mr. Colby was a Research Consultant at Ned Davis Research. There he contributed to the firm's proprietary model building methods, and he worked on conversion from paper to electronic delivery of research to **Clients'** desktops.

Mr. Colby spent most of the 1980's as a Senior Technical Research Analyst and Vice President with Smith Barney in New York. There he wrote daily and weekly reports and made thousands of presentations to institutional and individual investors. He integrated technical, fundamental, and quantitative research methodologies into a cohesive and complimentary model. He created an objective technical and quantitative ranking system for stock selection across the full spectrum of industry groups, foreign and domestic stocks. He revised and improved the stock-monitoring *REACTIONS* service covering about 2000 stocks for professional intuitional investors, and he initiated technical research coverage of fixed-income and foreign markets.

From 1969 to 1979, Mr. Colby held several positions as a Technical and/or Fundamental Analyst for *Indicator Digest* and *Income Investor* investment newsletters in New Jersey, Value Line Investment Survey in New York, Loewi & Company in Milwaukee, Wisconsin, A.G. Edwards in St. Louis, and The Ohio Company in Columbus, Ohio.

Mr. Colby earned a BS in Business Administration from the Ohio State University in 1969, with honors: cum laude, Beta Gamma Sigma, and Pace Setters. He majored in Real Estate and Finance. He completed all undergraduate and graduate-level course work in investments and finance, with a focus on stock market related courses.

Accreditation and Licenses: CMT (Chartered Market Technician). Series 7, Series 63, Series 3, Options, CFA 1.

Publications: Colby, Robert W., *The Encyclopedia of Technical Market Indicators*, Second Edition, McGraw-Hill, 2003, 820-pages. Critically acclaimed investment research. This book is the standard reference for technical indicators and trading systems design. Published the first edition in 1988.

Mr. Colby also published articles in *Forbes*, *Institutional Investor*, *Technical Analysis of STOCKS & COMMODITIES*, *SFO* (STOCKS, FUTURES AND OPTIONS MAGAZINE), *Active Trader*, *The Technical Analyst*, *MarketWatch*, *TradingMarkets.com*, *Physician's Money Digest*, *PC Magazine* (technical analysis software reviews), *Futures Magazine*, and works in progress on investment strategies, research methodologies, fundamental indicators, and chart pattern interpretation.

Mr. Colby is a Member of the Market Technicians Association since 1980. He serves on the MTA Accreditations Committee, setting standards of competency. He has been a grader of CMT 3 Accreditations exam, has served on the MTA Prometric CMT Exams Standard Setting Panel, and is a past chairman of the MTA Programs Committee.

Mr. Colby has been a featured speaker at the Traders' Expo 2007, Money Show 2007, ETF Summit in Rome 2007, Market Technicians Association 2005, New York Institute of Finance 2001, New York University 2001, Rutgers University Graduate School of Business 2000, Omega Research Trading Strategy Conference 2000, and the Technical Analysis Group Annual Conference 1998.

### **William K. Anderson**

William K. Anderson is the CEO and COO of Robert W. Colby Asset Management, Inc. Mr. Anderson is responsible for the daily operations of the firm including, but not limited to: executing trades, compliance, **Client** relations, and customer service.

For the past 9 years, Mr. Anderson was the CEO of RealReturns.com, an on-line financial advisory service. At RealReturns, Mr. Anderson developed an unbiased financial advisory system that offered **Clients** portfolio optimization recommendations for their retirement plans. RealReturns also offered basic financial planning advice including legal documents, insurance, budgeting, saving, spending, and financial goal creation and monitoring.

Prior to his career change to the Financial Planning field, Mr. Anderson spent 17 years with Lucent Technologies and AT&T. Mr. Anderson started as an Industrial Engineer in a high-tech manufacturing facility; he then became the Product Manager for AT&T's AUDIX Voice Messaging System. After managing several hardware and software releases, Mr. Anderson moved into a sales role, supporting multi-media and contact center solutions sales to Fortune 500 companies in the Northeast.

Mr. Anderson has received formal training in investment fiduciary responsibility and has earned the Accredited Investment Fiduciary® (AIF®) professional designation by the Center for Fiduciary Studies, in association with the University of Pittsburgh Katz Graduate School of Business.

Mr. Anderson is also a Financial Planner, a Registered Investment Advisor Representative, and a Member of the Financial Planning Association. Mr. Anderson also holds a Series 65 License.

Mr. Anderson's Education Includes:

- The Accredited Investment Fiduciary® (AIF®) designation,
- A Certification in Financial Planning from New York University,
- An M.B.A. from the University of North Carolina at Greensboro, and
- A B.S. Degree in Industrial Engineering from the University of Tennessee.

## OPENING THE ACCOUNT – BROKERAGE ARRANGEMENTS

**Client** funds for trading the Advisor’s program are not held by the Advisor. The Funds must be held by a brokerage firm such as Charles Schwab or Shareholders Service Group. The brokerage firm will be responsible for the record keeping of funds, paying Advisor fees from the **Client’s** account, and providing the **Client** with statements of the account. **Clients** are free to select the brokerage firm of their choice; however, **Colby’s** fees vary based on the tools available at each broker (see “Fees and Expenses”). **Clients** will pay brokerage fees established by the broker in connection with transactions effected for the customer's account pursuant to instructions provided by the Advisor.

In the attached Investment Management Agreement, the **Client** authorizes Robert W. Colby Asset Management to make trading decisions for his/her account. The **Client** is responsible for paying to the **Client’s** brokerage firm all brokerage commissions and other transaction costs incurred by **Colby** in connection with transactions effected for the **Client’s** account.

## THE TRADING PROGRAM

The following description of **Colby** and its trading methods and strategies is general and is not intended to be exhaustive. **Colby’s** trading methods are proprietary and complex, so only the most general descriptions are possible. While **Colby** believes that the description of its methods and strategies included herein may be of interest to prospective **Clients**, such persons must be aware of the inherent limitations of such description. **Colby** from time to time may change or refine certain elements of the trading systems employed.

**Colby** believes that an investment in the trading program will only experience the benefit of the program over a longer period of time and therefore, **Colby** suggests that the **Client** view his or her account as a long-term investment with the objective of seeking capital appreciation over time.

- **Colby Relative Strength Program: Minimum Investment \$10,000**

The goal of the Relative Strength Program is to achieve capital appreciation with the use of Exchange Traded Funds (ETFs). We attempt to obtain consistent quarterly returns that exceed those of the equity market and to protect capital against adverse market trends.

Our profit objective with this program is 12% or greater per year for the Colby -100 Portfolio, 11% or greater for the Colby - 80 Portfolio, 10% or greater for the Colby - 60 Portfolio, 9% or greater for the Colby - 40 Portfolio, and 7% or greater for the Colby - 20 Portfolio (Portfolio Strategies are outlined below). The market can move up, down, or sideways within a specific range and still produce profits. Additionally, the **Colby** trading

strategy has the potential to perform well in any economic environment including both inflationary and deflationary periods (unlike the broader stock market).

The **Colby** Relative Strength strategy is defined as follows:

- 1) **Client's** assets will be invested in approximately 10 Exchange-Traded Funds (ETFs), plus a cash/income component. Each week, **Colby** will first calculate a six-month rate of change (approximately) of price for 235 of the major ETF's, based on **Colby's** updated version of the Screening Method for Analysis of Relative Strength. Next, **Colby** will add in filters to dampen random noise. **Colby** will then rank all the ETFs in this universe from highest rate of change to lowest rate of change. Finally, each week, to the extent deemed practical, **Colby** will rebalance **Clients'** accounts so that each **Client** holds roughly equivalent amounts of each of the "Top 10" ETFs from **Colby's** analysis. These *Top 10* are the best performing ETFs from the analysis and have the highest major trend momentum.
  
- 2) **There are 5 portfolios available to the client:**
  - a. **The Colby - 100 Portfolio** will strive to be 100% invested in the Top 10 ETFs (Target 10% of assets in each ETF),
  - b. **The Colby - 80 Portfolio** will strive to have a mix of approximately 80% Top 10 ETFs, 20% cash/income securities,
  - c. **The Colby - 60 Portfolio** will strive to have a mix of approximately 60% Top 10 ETFs, 40% cash/income securities,
  - d. **The Colby - 40 Portfolio** will strive to have a mix of approximately 40% Top 10 ETFs, 60% cash/income securities,
  - e. **The Colby - 20 Portfolio** will strive to have a mix of approximately 20% Top 10 ETFs, 80% cash/income securities.

- f. **Target Date Portfolios** - Colby also created target date portfolios that utilize Colby's core portfolios outlined in parts a – e, above. Colby offers Target Date Portfolios for years 2010, 2015, 2020, 2025, 2030, 2035, 2040, 2045, and 2050. Core portfolios will be updated/changed in each clients' account annually based on the following schedule:

Years to Target Date	Robert W. Colby "Core" Portfolio and Allocations
10+	Colby—100 Portfolio
6—10	Colby—80 Portfolio
1—5	Colby—60 Portfolio
0	Colby—40 Portfolio
Target Date +1 - +4 Years	Colby—40 Portfolio
Target Date +5 Years	Colby—20 Portfolio

Each client's risk tolerance and time horizon will be assessed to ensure the proper portfolio is utilized.

- 3) In certain market conditions, **Colby** reserves the right to increase the **Client's** cash position to preserve **Client's** capital.
- 4) In an effort to minimize risk, new **Clients'** accounts may be gradually phased in to a fully invested position in the Top 10 ETFs over a period of several weeks, rather than all at once, in a single week, at **Colby's** discretion.

## INVESTOR PROFILE

**Colby's** strategies are constructed to perform optimally over longer periods of time. As such, the source of funds in a **Colby** managed account should not be borrowed, or constitute any other form of debt including home equity loans etc. The Exchange Traded Funds used in **Colby's** strategy are inherently more risky than a market index by comparison; large short-term increases and/or decreases can occur suddenly.

## PERFORMANCE RECORD

When reviewing Robert W. **Colby** Asset Management's performance record, prospective **Clients** should be aware that different accounts can and have had varying investment results, even though they have been traded according to the same general trading approach. The reasons for this may include the following material differences between accounts:

- 1) The period during which the accounts were active.
- 2) The size of the account. With larger accounts, the trading strategy can be followed more closely; i.e. the investment allocations are closer to the targets. Also, as an account gets larger, trading expenses are a smaller percentage, and, therefore have less of an impact on results. **Colby's** management fees are also lower for larger accounts.
- 3) When entering an order to buy or sell ETFs, **Colby** may block orders for its managed accounts (group them together) so that trades can be entered and executed with one order. If trades are executed at more than one price, however, a difference in performance can result.
- 4) The rates of brokerage commissions and fees paid to the brokerage firm can also negatively impact results.

## PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Trading will begin in the second quarter of 2010, and monthly results will be documented on our web site [www.colbyassetmanagement.com](http://www.colbyassetmanagement.com).

## PRINCIPAL RISK FACTORS AND OTHER CONSIDERATIONS

In addition to the risks inherent in investing in Exchange Traded Funds pursuant to instructions provided by **Colby**, there exist additional risk factors, including those described below, in connection with a **Client** advised by **Colby**. Prospective **Clients** should consider all of the risk factors described below and elsewhere in this Disclosure Document before making a decision to participate. Investing in Exchange Traded Funds can be volatile, and price movements for many of these investments are influenced by, among other things, changing supply and demand relationships: trade, financial, monetary, and exchange control programs, and policies of governments; United States and foreign political and economic events and policies; changes in national and international interest rates and rates of inflation, currency devaluation and revaluations; and emotions of the market place. None of these factors can be controlled by **Colby**, and no assurance can be given that any advice will result in profitable trades for a **Client** or that a **Client** will not incur losses.

### Fees and Expenses

A **Client** of **Colby** will be subject to brokerage commissions and other transactional costs charged by, and paid to the **Client's** brokerage firm. The **Client** is responsible for bearing any and all of these expenses. In the **Client** Agreement, the **Client** agrees to indemnify and hold harmless **Colby** and any future shareholders, directors, officers, employees, principals, affiliates, and agents in this regard. See the "FEES AND EXPENSES" section that follows for more information.

### Non-Diverse Portfolio

The trading programs do not seek a diversified portfolio of investments. Rather, they focus on select financial instruments that **Colby** believes offer the best combination of favorable rates of return. Our focus is "Absolute Returns", although **Colby** cannot guarantee that its trading strategies will be successful or profitable. And if these strategies result in a loss to the **Client**, the extent of the loss may be compounded by the fact that the **Client's** investment portfolio was concentrated in a few financial instruments or investment styles rather than diversified across a wide array of financial products or strategies.

### Trading

Adjustments are made to **Client** portfolios each week by buying and selling Exchange Traded Funds. We intend to work for the best execution of trades for **Clients'** accounts but cannot guarantee any specific outcome.

### Smaller Investments May Be At Greater Risk

If a **Client's** account is funded at a low investment level, (i.e. less than \$50,000), it may lag in performance because trading costs will be a higher percentage of the total account value; therefore, such an account may need to be traded somewhat differently [not more prudently, we manage all accounts prudently] than one funded at a higher level. Consequently, smaller

accounts may not permit implementation of the trading programs as these programs were designed, and that may impact the performance of the smaller accounts.

#### Capital Gains

Short-term capital gains and losses may be significant for taxable accounts. **Clients'** should consult their tax adviser.

### FEES AND EXPENSES

Applicable fees for each account are specifically described in each **Client's** Trading Agreement. Robert W. Colby Asset Management, Inc. reserves the right to offer a fee structure that differs from the table below, based on a **Client's** individual needs.

#### Management Fee:

Robert W. Colby Asset Management, Inc. will receive as compensation for its advisory services, a quarterly management fee of 1/4 of the annual management fee of the quarter-end account balance of a **Client's** account. The management fee is due and payable as of the last business day of each month (or as negotiated between the **Client** and Advisor).

The annual Fee Structure Is As Follows:

¼ of annual management Fees are due quarterly.

Account Balance	Account at Shareholders Service Group or Folio Institutional	Account at another Broker/Custodian
\$ 10,000 - \$ 499,999	1.0%	2.0%
\$500,000+	0.75%	1.0%

The management fee will be paid whether or not the account has a profit.

#### No Other Fees:

The management fee outlined above is the only fee Robert W. Colby Asset Management, Inc. will charge a **Client**. No other fees will be charged by **Colby**.

#### Non-Payment of Fees:

**Colby** reserves the right to suspend trading in any **Client** account that is more than 30 days past due. When trading is suspended, all positions will be converted to cash.

#### Fees Paid to Brokerage Firm or Custodian

A **Client** of **Colby** will be subject to brokerage commissions and other transactional costs charged by, and paid to the **Client's** brokerage firm or custodian. The **Client** is responsible for bearing any and all of these expenses.

## OTHER CONSIDERATIONS

### Conflict of Interest

**Colby** intends to use the same general methods and strategies to trade all its **Clients'** accounts. In rendering trading advice, **Colby** will never knowingly or deliberately favor the account of any **Client** over the account of any other **Client**. However, due to price volatility, occasional variations in liquidity, and differences in order of execution, it is not always possible for the brokerage firm to obtain identical trade execution for all of its **Clients**. Although unintentional, such variations and differences may produce differences in performance of **Clients'** accounts over time.

### Proprietary Trading

**Colby** reserves the right to trade for its own accounts. You should be aware that the trading activity in these account(s) might differ from the trading activity in a **Client's** account. There is no assurance that the trading results in the Advisor's/Principal's proprietary account(s) will be the same as the performance in a **Client's** Account since the Advisor and/or the Principal may trade more aggressively in their own accounts.

### Litigation

Neither Robert W. Colby Asset Management nor any principal of Robert W. Colby Asset Management has ever been party, nor is there any pending, to any material, administrative, civil or criminal proceedings or actions.

## CONCLUSION

In view of the foregoing, a prospective **Client** of the Robert W. Colby Asset Management, Inc. should consider carefully the risks involved in investing in Exchange Traded Funds.

Please note that this is a high-volatility strategy: the stocks that go up the most when the stock market is in a Bullish (upward) trend often go down the most during market corrections to the downside (Bearish Trend). Therefore, for best results, **Clients** should stick with the program through multiple cycles, both Bullish and Bearish.

## DISCLOSURE DOCUMENT ACKNOWLEDGEMENT

I (We) hereby acknowledge that I (we) have received, read, and understand the Disclosure Document for Robert W. Colby Asset Management, Inc. dated January 4, 2010, and conditions as set forth therein, and have carefully considered the matters outlined and referred to therein in determining whether to open a trading account advised and managed by Robert W. Colby Asset Management, Inc.

\_\_\_\_\_  
**Client** Signature

\_\_\_\_\_  
Joint Party Signature

\_\_\_\_\_  
**Client** Name (Print)

\_\_\_\_\_  
Joint Party Name (Print)

\_\_\_\_\_  
Date