

# Investment Adviser Brochure

## (Form ADV Part 2)

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### **A. Form ADV Part 2A – Firm Brochure**

#### **Item 1. Cover Page**



**Gaia Capital Management, Inc.**

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Dated 3/21/2020

This Firm Brochure (“Brochure”) provides information about the qualifications and business practices of Gaia Capital Management, Inc. If you have any questions about the contents of this Brochure, please contact us by email at [jim.pursley@gaiacapital.com](mailto:jim.pursley@gaiacapital.com) or by phone at 800-395-6636. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Registration as an investment adviser does not imply a certain level of skill or training.

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

## **Item 2. Material Changes**

Since our last annual update, dated March 21, 2019, no material changes were made to the Brochure.

Please be aware that other revisions may have been made to this Brochure which are not mentioned in this summary. Consequently, we encourage you to read this Brochure in its entirety.

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## **Item 4. Advisory Business**

Gaia Capital Management, Inc. (“we”, “us” or “our”) is a Registered Investment Adviser with its corporate and administrative headquarters located in Forest Grove, Oregon USA. We were founded in January 1991 by James C. Pursley, the principal and sole owner, who manages and directs principal business operations from his office in Caldas Novas, Brazil. Our mission is to:

- Enhance prosperity in the world through wise counsel, inspired action and astute money management
- Exercise financial stewardship with integrity, expertise, and vision
- Guide client accounts through good times and bad with consistency and focused attention to client goals and needs
- Shape the client retirement experience with high, sustainable and rising income

### **Investment Management Services**

We provide investment management services for separately managed client accounts (individually managed accounts) using equity securities such as common stocks and preferred stocks and investment company securities such as exchange traded funds, mutual funds and closed end funds. We do not use quantitative analysis, market timing or any other short-term trading strategy. However, because we manage client accounts with great attention to their needs and tolerance for risk and volatility, we may employ defensive strategies such as raising of cash levels and hedging from time to time. See Item 8 (Investment Strategies) for more details on the uses of securities in our investment management strategies.

As a Registered Investment Advisor, we are fiduciaries of our clients under the Investment Advisers Act of 1940 and are required to manage clients’ portfolios with their best interests in mind. We take our fiduciary responsibility seriously and always look to the spirit of the law as well as the letter of the law. Therefore, we tailor our services to the individual needs of clients within the parameters of their needs and tolerance for risk, determined by an investment profile we develop through interview and questionnaire. For clients with needs and constraints which do not fit into one of our programs, we place them in a non-classified program where each account is managed according to its very specific needs such as an extreme aversion to volatility or restrictions imposed on types of securities or companies to invest in.

All individual accounts are managed on a discretionary basis pursuant to the client’s investment profile as mentioned above. This means that we maintain authority to determine the securities or the amount of securities to be bought or sold, without additional prior client approval. As of February 29, 2020, our assets under management were approximately \$29.3 million.

### **Qualified Retirement Plan Services**

We provide fiduciary 3(38) investment services to qualified retirement plans through the development of investment policies, selection of designated investment alternatives and the creation and maintenance of model portfolio allocations for selection by plan participants. We may also provide such services as preparation and delivery of reports and investment-related educational information.

We are not involved in wrap fee programs.

## **Item 5. Fees and Compensation**

We are paid for our services through fees based on a percent of all assets in client accounts. We do not receive compensation for the sale of securities or other investment products. We are compensated solely through our investment management fees as noted below.

Our accounts at Fidelity Clearing and Custody Solutions (FCCS) have no account fees; however, accounts at other custodians may be charged administration and set-up fees. In addition to our investment management fee, accounts may incur commissions or trading fees on investment transactions in client accounts. Commissions and transaction fees vary by broker-dealer and may be less at other brokerage houses. We do not receive any of these commissions or transaction fees. See Item 12 (Brokerage Practices) concerning brokerage of client accounts.

### **Investment Management Fees**

Our fees for individually managed accounts begin at 1.15% for the first \$100,000. Fees on amounts over \$100,000 are calculated in bands, each of which decrease at \$500,000, \$1million and \$2 million. Our minimum annual fee is \$75, reduced to \$25 for new contributory retirement accounts through an employer retirement plan. Fees are pro-rated and billed monthly. At our discretion, we may negotiate a lower fee.

By default, fees are deducted monthly from client accounts; however, clients with individually managed accounts may request direct billing instead. Fees are calculated from the value of all client assets (for the entire household) as of the last day of the preceding month, pro-rated for monthly billing. The invoice amount is provided to the client and the qualified custodian of client funds and assets when billed.

Clients pay fees for the current month in advance. If our service agreement is terminated before the end of the billing period, we will refund the unearned fee, pro-rated to the date of termination. We do not charge a fee to terminate our service agreement, which may be done at any time.

<b>Individually Managed Account Annualized Fee Schedule</b>	
<b>Ending Account Balance (rounded to nearest dollar):</b>	<b>Tiered Fee:</b>
\$ 1 to \$ 100,000	1.15% of assets
\$ 100,000 to \$ 500,000	\$ 1,150 + 0.85% over \$ 100,000
\$ 500,000 to \$1,000,000	\$ 4,550 + 0.68% over \$ 500,000
\$1,000,000 to \$2,000,000	\$ 7,950 + 0.58% over \$1,000,000
\$2,000,000 and above	\$13,750 + 0.55% over \$2,000,000

### **Qualified Retirement Plan Fees**

Fees for 3(38) fiduciary services to qualified retirement plans range from 0.75% annually for the first \$2 million of plan assets to 0.15% annually for plan assets of \$10 million or more. Fees are determined through negotiation depending on the plan and complexity. Fees are pro-rated and billed quarterly.

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

We do not accept performance-based fees or practice side-by-side management.

## **Item 7. Types of Clients**

We accept as clients anyone whose condition we can help through application of our investment discipline. The majority of our clients are individuals, which include trusts, estates, 401(k) plans and participants and IRAs of individual clients and their family members. A small percentage of clients are small corporations. We do not require a minimum account size.

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

### **Methods of Analysis**

Our main sources of research are financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange commission and company press releases. Through these sources, we implement charting, technical, cyclical and fundamental methods of security analysis. Investing in securities involves risk of loss that all clients should be prepared to bear. However, our research and risk management minimize the probability of serious and sustained loss.

### **Investment Strategies**

Our investment management employs strategies that cover both income and growth investing, though we do not treat them as mutually exclusive. The great majority of our assets under management have both income and growth

characteristics. We find growth alone (gains from price changes only) to be spotty and volatile, while income from dividends and interest is usually not sufficient to propel clients toward their financial goals. We may employ individual stocks and bonds as well as professionally managed funds and exchange-traded index funds where appropriate. Individual securities pose risk of gain or loss beyond that of managed funds because an individual security cannot diversify the risk that a particular issuer may fail or may succeed beyond expectations. We mitigate this business risk by buying securities in proportion to their risk of sustained and serious loss. Diversified investment vehicles such as mutual funds and exchange-traded funds are subject to volatility (up and down price movement) and market risk (the risk that a majority of securities in a particular market will rise or fall in tandem with each other).

We are long-term investors but do not just buy and hold security positions. To optimize the growth of account income (dividends and interest) and balance, we will rebalance positions from time to time and use offensive and defensive tactics necessary to realize income, cure conditions of overvaluation or to apply our strict loss management discipline to securities purchased. These tactics may require selling of securities from time to time, which may result in increased brokerage commissions and/or taxes.

We do not limit investment selection to one security type, nor do we employ every security type available in our investments. The types of securities we use for investment selection include equity securities such as common stocks and preferred stocks and investment company securities such as exchange traded funds, mutual funds and closed end funds. We may also use individual bonds.

### **Risk of Loss**

All investing and trading activities risk the loss of capital. Although we will attempt to moderate these risks, no assurance can be given that the investment activities of an account we advise will achieve the investment objectives of such account or avoid losses. Direct and indirect investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance. It is important that you understand the risks associated with investing in the types of investments listed above.

Except as may otherwise be provided by law, we are not liable to clients for:

- Any loss that you may suffer by reason of any investment decision made or other action taken or omitted by us in good faith;
- Any loss arising from our adherence to your instructions or the disregard of our recommendations made to you; or
- Any act or failure to act by a custodian or other third party to your account.

The information included in this Brochure does not include every potential risk associated with an investment strategy, technique or type of security applicable to a particular client account. You are encouraged to ask questions regarding risks applicable to a particular strategy or investment product and read all product-specific risk disclosures. It is your responsibility to give us complete information and to notify us of any changes in financial circumstances or goals.

### **Important Risks to Consider When Investing in Financial Markets**

There are certain additional risks associated when investing in securities. Some risks may be reduced or eliminated by careful and prudent investment management. Potential risks are; including, but not limited to:

- **Stock Market Risk:** The value of securities in your accounts will fluctuate and, as a result, the value may decline suddenly or over a sustained period of time.
- **Inflation Risk:** Most fixed income instruments will sustain losses if inflation increases or the market anticipates increases in inflation. If we enter a period of moderate or heavy inflation, the value of your fixed income securities could go down.
- **Interest Rate Risk:** The value of fixed income securities rises or falls based on the underlying interest rate environment. If rates rise, the value of most fixed income securities could go down.

- **Management Risk:** Your investments will vary with the success and failure of our investment strategies, research, analysis and determination of portfolio securities.
- **Managed Portfolio Risk:** The manager's investment strategies or choice of specific securities may be unsuccessful and may cause the portfolio to incur losses.
- **ETF and Mutual Fund Risk:** While these pooled investments diversify many of the risks discussed above, they still carry managed portfolio risk and many of the risks discussed here.
- **Public Policy / Geopolitical Risk:** Financial market investments are subject to loss arising from government policy mistakes in regulation, taxation, debt management, monetary and fiscal policy choices.
- **Non-U.S. Securities Risk:** With few exceptions, international investments generally have higher volatility and lower liquidity than U.S. securities and expose your accounts to currency risk, the possibility that the value of the currency in the country in which the investment is domiciled, will fall in value relative to the U.S. dollar. International investing may also involve the risk that rule of law will not protect your investment, political instability may affect the value of your investment, shareholders may have fewer rights than Americans and other risks associated with investing where law and custom differs from that of the U.S.
- **Timing Risk:** The risk that a client takes when trying to buy or sell a stock based on future price predictions. Timing risk is the potential for missing out on beneficial movements in price due to an error in timing. This could cause harm to the value of your portfolio because of purchasing too high or selling too low.
- **Leverage Risk:** Leverage is used to increase potential return on an investment. If leverage is used to make an investment and the investment moves against the investor, the loss is much greater that it would have been if the investment had not been leveraged. Leverage typically magnifies both gains and losses. Leveraging lower volatility securities such as bonds subjects clients to less potentially harmful volatility compared to higher volatility investments such as common stocks.
- **Liquidity Risk:** Certain assets may not be readily converted into cash or may have a very limited market in which they trade. You may experience the risk that your investment or assets within your investment may not be able to be liquidated quickly, thus, extending the period of time by which you may receive the proceeds from your investment. Liquidity risk can also result in unfavorable pricing when exiting a particular investment (i.e. not being able to quickly get out of an investment before the price drops significantly) and therefore, can have a negative impact on investment returns.

## **Item 9. Disciplinary Information**

An administrative proceeding by our state regulatory agency, Oregon Department of Consumer and Business Services, Division of Finance and Corporate Securities (DFCS), was initiated and resolved December 2012. During a routine examination, the DFCS found that we and James Pursley failed to timely amend Mr. Pursley's Investment Adviser Representative Application for material changes including Mr. Pursley's change of address to Brazil and the lapse of his Certified Financial Planner (CFP) certification. The action taken resulted in a Consent Order to Cease and Desist from failing to file amendments with material changes and any violation of Oregon statutes and a Civil and Administrative Penalty of \$5,000, of which \$2,000 was suspended (Case #S-12-0103).

There have been no self-regulatory organization (SRO) proceedings against us or any civil or criminal actions against us in a court of jurisdiction.

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

We may use the services of another investment adviser to outsource some of our back-office operations or as a sub-adviser for some of our investment programs. We believe that this does not create a conflict of interest. We do not receive compensation to recommend or select other investment advisers for our clients.

We are not registered as a broker-dealer or representative nor are we registered for commodities or futures.

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

### **Code of Ethics**

An investment adviser is considered a fiduciary and our firm has a fiduciary duty to all clients. As a fiduciary, we have a responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. If you or a potential client wish to review our Code of Ethics in its entirety, a copy will be provided upon request by contacting us by email at [jim.pursley@gaiacapital.com](mailto:jim.pursley@gaiacapital.com) or by phone at 800-395-6636.

### **Personal Trading**

We recognize that the personal investment transactions of our employees demand the application of a Code of Ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and our employees, it is logical and even desirable that there be common ownership of some securities. Therefore, in order to prevent conflicts of interest, we have in place a set of procedures (including a pre-clearing procedure) with respect to transactions effected by our officers and employees for their personal accounts. To monitor compliance with our personal trading policy, we have a quarterly securities transaction reporting system in place. Upon employment or affiliation and at least annually thereafter, all employees will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. We also reserve the right to disapprove any proposed transaction that may have the appearance of improper conduct.

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

We do not recommend, buy or sell securities for clients that we or a related person have a material financial interest in. We must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics.

## **Item 12. Brokerage Practices**

We recommend to the majority of our clients that their accounts be held at the Fidelity Clearing and Custody Solutions (FCCS) division of Fidelity Investments. FCCS provides record-keeping services for accounts held there and clearing, custody and other brokerage services through National Financial Services, LLC. We may establish accounts with other vendors or trust companies if they suit client needs better than FCCS.

We do not receive client referrals from any broker-dealer and do not permit client-directed brokerage transactions.

FCCS may make certain research and brokerage services available at no additional cost to us, all of which qualify for the safe harbor exemption defined in Item 28(e) of the Securities Exchange Act of 1934. These services may be directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided by FCCS may include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; and other products or services that provide lawful and appropriate assistance to us in the performance of our investment decision-making responsibilities.

We do not use client brokerage commissions to obtain research or other products or services. The aforementioned research and brokerage services are used by us to manage accounts for which we have investment discretion. Without this arrangement, we might be compelled to purchase the same or similar services at our own expense.

As a result of receiving these services, we may have an incentive to continue to use or expand the use of FCCS's services. We examined this potential conflict of interest when we chose to enter into the relationship with FCCS, and we have determined that the relationship is in the best interest of our clients and satisfies our fiduciary obligations, including our duty to seek best execution.



FCCS charges brokerage commissions and transaction fees for effecting certain securities transactions (e.g. commissions are charged for individual equity and debt securities transactions, and transaction fees are charged for certain no-load mutual funds). FCCS enables us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. The commission and transaction fees charged by FCCS may be higher or lower than those charged by other custodians and broker-dealers. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions.

### **Trade Aggregation**

We may buy and sell common stocks, individual bonds and exchange-traded or closed-end funds in individual accounts or aggregate the shares in a block trade for later allocation. Commissions are not affected and block trading allows us to get the same price for all clients and may improve the price we pay. We endeavor to get the best available pricing and execution on security purchases for all clients.

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

All individually managed accounts are routinely reviewed by James C. Pursley, President and Chief Investment Officer. Routine reviews scan accounts for errors, balances, position sizing and proportioning, and continued appropriateness of each position to client objectives and goals. To ensure that we are current with the needs and goals of our clients, we conduct periodic portfolio reviews as needed and attempt to communicate with our clients routinely to discuss any changes.

Mr. Pursley reviews client financial and investment profiles periodically, but no less than annually. Conferences may be held with any client as needed. More frequent reviews may occur at any time that may cause positions to be bought or sold, added to or reduced, or changes made to model portfolio allocations. These reviews are based on the macroeconomic picture and certain position-specific occurrences, such as management changes and other developments that in our opinion may positively or negatively impact performance. See Item 8 (Investment Strategies) for more details.

We provide all clients with individually managed accounts written quarterly performance reviews of their account(s) that may show securities held, cash invested, current value, percentage and dollar profit or loss and the relative contributions from dividends/interest and price appreciation to total return (performance). They may also include comparison of the entire portfolio against selected appropriate indexes. Additional reports may be prepared on request or as needed to keep clients informed about the progress of their accounts. We exercise great care in writing client reports for clarity and readability. Report data and investment valuations are taken directly from account information provided by the account custodian and/or record-keeper (such as FCCS). We encourage clients to compare the information provided on our performance reports with their statements from the account custodian. A client may request written account reports or telephone conferences at any time.

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

We do not offer compensation for client referrals.

We do not receive any economic benefit from non-clients for advisory services.

### **Item 15. Custody**

We do not accept, maintain possession or have custodial responsibility for any client funds or securities and have no authority to withdraw or transfer client assets, except for payment of our investment management fee, as outlined in Item 5 (Investment Management Fees), and any pre-set specific instructions for payments to clients directly that they have authorized in writing. The custodian sends statements at least quarterly to all clients showing all disbursements from their account(s), including the amount of any fees.

We shall have no liability to a client for any loss or other harm to any property in the account, including any harm to any property in the account resulting from the insolvency of the custodian or any acts of the agents or employees of the custodian and whether or not the full amount or such loss is covered by the Securities Investor Protection Corporation ("SIPC") or any other insurance which may be carried by the custodian. You understand that SIPC provides only limited protection for the loss of property held by a custodian. We encourage you to raise any questions with us about the custody, safety or security of your assets.

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

Generally, clients grant us ongoing and continuous discretionary authority to execute investment recommendations in accordance with an agreed upon investment strategy or plan without prior approval of each specific transaction, which is achieved through our custodial relationship with FCCS. Under discretionary authority, as outlined in an executed Investment Management Agreement and the Limited Power of Attorney, clients allow us to purchase and sell securities and instruments in their account(s), arrange for delivery and payment in connection with the foregoing, select and retain sub-advisors, and act on behalf of the client in matters necessary or incidental to the handling of the account, including monitoring certain assets. These documents are executed prior to assuming authority or making any investment transactions on behalf of our clients.

The only restrictions on this discretionary authority are those set by the client on a case by case basis. Clients may request a cash position to be left uninvested which, depending on the amount, may affect account performance.

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

Clients must provide us with written authorization to vote their securities. The authorization preference is provided during the brokerage application process if desired and can be changed at any time in writing. The majority of our clients prefers to have all investment-related materials directed to us for voting their securities and do not inquire about how they are voted. Before voting a proxy, we read applicable material provided by the issuer including SEC submissions, proxy material, Board member biographies, financial statements and other such materials as are relevant to an informed voting decision. Clients may contact us by phone or email to inquire about how we voted their securities. A copy of our proxy voting policies and procedures is available on request.

Clients who choose not to grant us voting authority will vote securities themselves. They will receive proxies and related materials directly from the custodian or transfer agent. Clients may contact us by phone or email with questions on voting proxies or any other investment issues. In the event that proxies are sent to us, we will forward them to the client and ask the party who sent them to mail them directly to the client in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

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

We do not require pre-payment of adviser fees six months or more in advance.

There are no financial conditions present that would impair our ability to meet the contractual commitments we have made to our clients.

We have not been subject to any bankruptcy petitions.